Crisis Theory

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Business cycles and the related though not identical topic of economic crises fascinated Marx. He invested much time in their study and often indicated how important he considered their impact on society and political systems. Yet he left no developed account of his views on crises. The selection presented here comes from one of Marx's most underappreciated works, *Theories of Surplus Value,* a three-volume work which has sometimes been described as Volume Four of *Capital.*

It is Chapter XVII of this work, and not *Capital* proper, that contains the best and most systematic discussion by Marx of economic crises. The discussion takes the form of an attack on Say's Law of Markets. This was an argument, put forward by Jean-Baptiste Say (1767–1832) and James Mill (1773–1836) and accepted by David Ricardo (1772–1823), for the impossibility of a sustained general glut (of "overproduced" commodities). It is interesting that Marx's attack, like modern criticism of Say, centers on the potentially grave consequences for economic equilibrium of the generalization of the money economy.*

Ricardo's Denial of General Over-Production. Possibility of a Crisis Inherent in the Inner Contradictions of Commodity and Money

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So far as crises are concerned, all those writers who describe the real movement of prices, or all experts, who write in the actual situation of a crisis, have been right in ignoring the allegedly theoretical twaddle and in contenting themselves with the idea that what may be true in abstract theory—namely, that no gluts of the market and so forth are possible—is, nevertheless, wrong in practice. The constant recurrence of crises has in fact reduced the rigmarole of Say and others to a phraseology which is now only used in times of prosperity but is cast aside in times of crises.

In the crises of the world market, the contradictions and antagonisms of bourgeois production are strikingly revealed. Instead of investigating the nature of the conflicting elements which erupt in the catastrophe, the apologists content themselves with denying the catastrophe itself and insisting, in the face of their regular and periodic recurrence, that if production were carried on according to the

* The above headnote was prepared by Thomas Ferguson. [*R. T.*]

textbooks, crises would never occur. Thus the apologetics consist in the falsification of the simplest economic relations, and particularly in clinging to the concept of unity in the face of contradiction.

If, for example, purchase and sale—or the metamorphosis of commodities—represent the unity of two processes, or rather the movement of one process through two opposite phases, and thus essentially the unity of the two phases, the movement is essentially just as much the separation of these two phases and their becoming independent of each other. Since, however, they belong together, the independence of the two correlated aspects can only *show itself* forcibly, as a destructive process. It is just the *crises* in which they assert their unity, the unity of the different aspects. The independence which these two linked and complementary phases assume in relation to each other is forcibly destroyed. Thus the crisis manifests the unity of the two phases that have become independent of each other. There would be no crisis without this inner unity of factors that are apparently indifferent to each other. But no, says the apologetic economist. Because there is this unity, there can be *no* crises. Which in turn means nothing but that the unity of contradictory factors excludes contradiction.

In order to prove that capitalist production cannot lead to general crises, all its conditions and distinct forms, all its principles and specific features—in short *capitalist production* itself—are denied. In fact it is demonstrated that if the capitalist mode of production had not developed in a specific way and become a unique form of social production, but were a mode of production dating back to the most rudimentary stages, then its peculiar contradictions and conflicts and hence also their eruption in crises would not exist.

Following Say, Ricardo writes: "Productions are always bought by productions, or by services; money is only the medium by which the exchange is effected" (341). Here, therefore, firstly *commodity*, in which the contradiction between exchange-value and use-value exists, becomes mere product (use-value) and therefore the exchange of commodities is transformed into mere barter of products, of simple use-values. This is a return not only to the time before capitalist production, but even to the time before there was simple commodity production; and the most complicated phenomenon of capitalist production—the world market crises—is flatly denied, by denying the first condition of capitalist production, namely, that the product must be a commodity and therefore express itself as money and undergo the process of metamorphosis. Instead of speaking of wage-labour, the term "services" is used. This word again omits the specific characteristic of wage-labour and of its use—namely, that it increases the value of the commodities against which it is exchanged, that it creates surplus-value—and in doing so, it disregards the specific relationship through which money and commodities are transformed into capital. "*Service*" is labour seen only as *use-value* (which is a side issue in capitalist production) just as the term "productions" fails to express the essence of *commodity* and its inherent contradiction. It is quite consistent that *money* is then regarded merely as an intermediary in the exchange of products, and not as an essential and necessary form of existence of the commodity which must manifest itself as exchange-value, as general social labour. Since the transformation of the commodity into mere use-value (product) obliterates the essence of exchange-value, it is just as easy to deny, or rather it is necessary to deny, that *money* is an essential aspect of the commodity and that in the process of metamorphosis it is *independent* of the original form of the commodity.

Crises are thus reasoned out of existence here by forgetting or denying the first elements of capitalist production: the existence of the product as a commodity, the duplication of the commodity in commodity and money, the consequent separation which takes place in the exchange of commodities and finally the relation of money or commodities to wage-labour.

Incidentally, those economists are no better, who (like John Stuart Mill) want to explain the crises by these simple *possibilities* of crisis contained in the metamorphosis of commodities—such as the separation between purchase and sale. These factors which explain the possibility of crises, by no means explain their actual occurrence. They do not explain *why* the phases of the process come into such conflict that their inner unity can only assert itself through a crisis, through a violent process. This *separation* appears in the crisis; it is the elementary form of the crisis. To *explain* the crisis on the basis of this, its elementary form, is to explain the existence of the crisis by describing its most abstract form, that is to say, to explain the crisis by the crisis. Ricardo says:

> No man produces, but with a view to consume *or sell*, and he never sells, but with an intention to *purchase* some other commodity, which may be immediately useful to him, or which may contribute to *future production*. By producing, then, he necessarily becomes either the consumer of his own goods, or the purchaser and consumer of the goods of some person. It is not to be supposed that he should, *for any length of time*, be ill-informed of the commodities which he can most advantageously produce, to attain the object which he has in view, namely, the *possession of other goods*; and, *therefore*, it is not probable that he will *continually* produce a commodity for which there is no demand. [Pp. 339–40.]

This is the childish babble of a Say, but it is not worthy of Ricardo. In the first place, no capitalist produces in order to consume his product. And when speaking of capitalist production, it is right to say that: "no man produces with a view to consume his own product," even if he uses portions of his product for industrial consumption. But here the point in question is private consumption. Previously it was forgotten that the product is a commodity. Now even the social division of labour is forgotten. In a situation where men produce for themselves, there are indeed no crises, but neither is there capitalist production. Nor have we ever heard that the ancients, with their slave production ever knew crises, although individual producers among the ancients too, did go bankrupt. The first part of the alternative is nonsense. The second as well. A man who has produced does not have the choice of selling or not selling. He must *sell*. In the crisis there arises the very situation in which he cannot sell or can only sell below the cost-price or must even sell at a positive loss. What difference does it make, therefore, to him or to us that he has produced in order to sell? The very question we want to solve is what has thwarted this good intention of his?

Further: he "never *sells*, but with an intention to *purchase* some other commodity, which may be immediately useful to him, or which may contribute to future production" (p. 339).

What a cosy description of bourgeois conditions! Ricardo even forgets that a person may *sell* in order to *pay*, and that these forced sales play a very significant role in the crises. The capitalist's immediate object in selling, is to turn his commodity, or rather his commodity capital, back into *money capital*, and thereby to *realise* his profit. Consumption—revenue—is by no means the guiding motive in this process, although it is for the person who only sells *commodities* in order to transform them into means of subsistence. But this is not capitalist production, in which revenue appears as the result and not as the determining purpose. Everyone *sells* first of all in order to sell, that is to say, in order to transform commodities into money.

During the crisis, a man may be very pleased, if he has *sold* his commodities without immediately thinking of a purchase. On the other hand, if the value that has been realised is again to be used as capital, it must go through the process of reproduction, that is, it must be exchanged for labour and commodities. But the crisis is precisely the phase of disturbance and interruption of the process of reproduction. And this disturbance cannot be explained by the fact that it does not occur in those times when there is no crisis. There is no doubt that no one "will continually produce a commodity for which there is no demand" (p. 340), but no one is talking about such an absurd hypothesis. Nor has it anything to do with the problem. The immediate purpose of capitalist production is not "the possession of other goods," but the appropriation of value, of money, of abstract wealth.

Ricardo's statements here are also based on James Mill's proposition on the "metaphysical equilibirum of purchases and sales," which I examined previously—an equilibrium which sees *only* the unity, but not the separation in the processes of purchase and sale. Hence also Ricardo's assertion (following James Mill): "Too much of a *particular* commodity may be produced, of which there may be such a glut in the market, as not to repay the capital expended on it; but this cannot be the case with respect to *all* commodities" (pp. 341–42).

Money is not only "the medium by which the exchange is effected" (p. 341), but at the same time the medium by which the exchange of product with product is divided into two acts, which are independent of each other, and separate in time and space. With Ricardo, however, this false conception of money is due to the fact that he concentrates exclusively on the *quantitative determination* of exchange-value, namely, that it is equal to a definite quantity of labour-time, forgetting on the other hand the *qualitative* characteristic, that individual labour must present itself as *abstract, general social* labour only through its alienation.[1]

That only *particular* commodities, and not *all* kinds of commodities, can form "a glut in the market" and that therefore over-production can always only be partial, is a poor way out. In the first place, if we consider only the nature of the commodity, there is nothing to prevent *all commodities* from being super-abundant on the market, and therefore all falling below their price. We are here only concerned with the factor of crisis. That is all commodities, apart from money [may be super-abundant]. [The proposition] *the* commodity must be converted into money, only means that: *all* commodities must do so. And just as the difficulty of undergoing this metamorphosis exists for an individual commodity, so it can exist for all commodities. The general nature of the metamorphosis of commodities—which includes the separation of purchase and sale just as it does their unity—instead of excluding the *possibility* of a general glut, on the contrary, contains the possibility of a general glut.

Ricardo's and similar types of reasoning are moreover based not only on the relation of *purchase and sale*, but also on that of *demand and supply*, which we have to examine only when considering the competition of capitals. As Mill says, purchase is sale etc., therefore demand is supply and supply demand. But they also fall apart and can become independent of each other. At a given

1. That Ricardo [regards] money merely as *means of circulation* is synonymous with his regarding *exchange-value* as a merely transient form, and altogether as something purely formal in bourgeois or capitalist production, which is consequently for him not a specific definite mode of production, but simply *the* mode of production. [*Marx*]

moment, the supply of all commodities can be greater than the demand for all commodities, since the demand for the *general commodity*, money, exchange-value, is greater than the demand for all particular commodities, in other words the motive to turn the commodity into money, to realise its exchange-value, prevails over the motive to transform the commodity again into use-value.

If relation of demand and supply is taken in a wider and more concrete sense, then it comprises the relation of *production* and *consumption* as well. Here again the *unity* of these two phases, which does exist and which forcibly asserts itself during the crisis, must be seen as opposed to the *separation* and *antagonism* of these two phases, separation and antagonism which exist just as much, and are moreover typical of bourgeois production.

With regard to the contradiction between partial and universal over-production, in so far as the existence of the former is affirmed in order to evade the latter, the following observation may be made:

Firstly: Crises are usually preceded by a general inflation in prices of all articles of capitalist production. All of them therefore participate in the subsequent crash and at their former prices they cause a glut in the market. The market can absorb a larger volume of commodities at falling prices, at prices which have fallen below their cost-prices, than it could absorb at their former prices. The excess of commodities is always relative; in other words it is an excess at particular prices. The prices at which the commodities are then absorbed are ruinous for the producer or merchant.

Secondly: For a crisis (and therefore also for over-production) to be general, it suffices for it to affect the principal commercial goods.

Ricardo's Wrong Conception of the Relation Between Production and Consumption Under the Conditions of Capitalism

Let us take a closer look at how Ricardo seeks to deny the possibility of a general glut in the market:

> Too much of a particular commodity may be produced, of which there may be such a glut in the market, as not to repay the capital expended on it; but this cannot be the case with respect to all commodities; the demand for corn is limited by the mouths which are to eat it, for shoes and coats by the persons who are to wear them; but through a community, or a part of a community, may have as much corn, and as many hats and shoes, as it is able or may wish to consume, *the same cannot be said of every commodity produced by nature or by art.* Some would consume more wine, if they had the ability to procure it. Others having enough of wine, would to increase the quantity or improve the quality

of their furniture. Others might wish to ornament their grounds, or to enlarge their houses. The wish to do all or some of these is implanted in every man's breast; *nothing is required but the means, and nothing can afford the means, but an increase of production.* [Pp. 341–42.]

Could there be a more childish argument? It runs like this: more of a particular commodity may be produced than can be consumed of it; but this cannot apply to *all* commodities at the same time. Because the needs, which the commodities satisfy, have no limits and all these needs are not satisfied at the same time. On the contrary. The fulfillment of one need makes another, so to speak, latent. Thus nothing is required, but the means to satisfy these wants, and these means can only be provided through an increase in production. Hence no general overproduction is possible.

What is the purpose of all this? In periods of over-production, a large part of the nation (especially the working class) is less well provided than ever with corn, shoes etc., not to speak of wine and furniture. If over-production could only occur when all the members of a nation had satisfied even their most urgent needs, there could never, in the history of bourgeois society up to now, have been a state of general over-production or even of partial over-production. When, for instance, the market is glutted by shoes or calicoes or wines or colonial products, does this perhaps mean that four-sixths of the nation have more than satisfied their needs in shoes, calicoes etc.? What after all has over-production to do with absolute needs? It is only concerned with demand that is backed by ability to pay. It is not a question of absolute over-production—over-production as such in relation to the absolute need or the desire to possess commodities. In this sense there is neither partial nor general over-production; and the one is not opposed to the other.

But—Ricardo will say—when there are a lot of people who want shoes and calicoes, why do they not obtain the means to acquire them, by producing something which will enable them to buy shoes and calicoes? Would it not be even simpler to say: Why do they not produce shoes and calicoes for themselves? An even stranger aspect of over-production is that the workers, the actual producers of the very commodities which glut the market, are in need of these commodities. It cannot be said here that they should produce things in order to obtain them, for they have produced them and yet they have not got them. Nor can it be said that a particular commodity gluts the market, because no one is in want of it. If, therefore, it is even impossible to explain that *partial* over-production arises because the demand for the commodities that glut the market has been more than satisfied, it is quite impossible to explain away *universal* over-production by declaring that needs, unsatisfied needs, exist for many of the commodities which are on the market.

Let us keep to the example of the weaver of calico. So long as reproduction continued uninterruptedly—and therefore also the phase of this reproduction in which the product existing as a saleable commodity, the calico, was reconverted into money, at its value—so long, shall we say, the workers who produced the calico, also consumed a part of it, and with the expansion of reproduction, that is to say, with accumulation, they were consuming more of it, or also more workers were employed in the production of calico, who also consumed part of it.

Crisis, Which Was a Contingency, Becomes a Certainty. The Crisis as the Manifestation of All the Contradictions of Bourgeois Economy.

Now before we proceed further, the following must be said:

The *possibility* of crisis, which became apparent in the *simple metamorphosis* of the commodity, is once more demonstrated, and further developed, by the disjunction between the (direct) process of production and the process of circulation. As soon as these processes do not merge smoothly into one another but become independent of one another, the crisis is there.

The possibility of crisis is indicated in the metamorphosis of the commodity like this:

Firstly, the commodity which actually exists as use-value, and nominally, in its price, as exchange-value, must be transformed into money. C—M. If this difficulty, the sale, is solved then the purchase, M—C, presents no difficulty, since money is directly exchangeable for everything else. The use-value of the commodity, the usefulness of the labour contained in it, must be assumed from the start, otherwise it is no commodity at all. It is further assumed that the individual value of the commodity is equal to its social value, that is to say, that the labour-time materialised in it is equal to the socially *necessary* labour-time for the production of this commodity. The possibility of a crisis, in so far as it shows itself in the simple form of metamorphosis, thus only arises from the fact that the differences in form—the phases—which it passes through in the course of its progress, are in the first place necessarily complementary and secondly, despite this intrinsic and necessary correlation, they are distinct parts and forms of the process, independent of each other, diverging in time and space, separable and separated from each other. The possibility of crisis therefore lies solely in the separation of sale from purchase. It is thus only in the form of commodity that the commodity has to pass through this difficulty here.

As soon as it assumes the form of money it has got over this difficulty. Subsequently however this too resolves into the separation of sale and purchase. If the commodity could not be withdrawn from circulation in the form of money or its retransformation into commodity could not be postponed—as with direct barter—if purchase and sale coincided, then the *possibility* of crisis would, under the assumptions made, disappear. For it is assumed that the commodity represents *use-value* for other owners of commodities. In the form of direct barter, the commodity is not exchangeable only if it has no use-value or when there are no other use-values on the other side which can be exchanged for it; therefore, only under these two conditions: either if one side has produced *useless* things or if the other side has nothing *useful* to exchange as an equivalent for the first use-value. In both cases, however, no exchange whatsoever would take place. *But in so far as exchange did take place*, its phases would not be separated. The buyer would be seller and the seller buyer. The *critical* stage, which arises from the form of the exchange—in so far as it is circulation—would therefore cease to exist, and if we say that the simple form of metamorphosis comprises the possibility of crisis, we only say that in this form itself lies the possibility of the rupture and separation of essentially complimentary phases.

But this applies also to the content. In direct barter, the bulk of production is intended by the producer to satisfy his own needs, or, where the division of labour is more developed, to satisfy the needs of his fellow producers, needs that are known to him. What is exchanged as a commodity is the surplus and it is unimportant whether this surplus is exchanged or not. In *commodity production* the conversion of the product into money, the sale, is a *conditio sine qua non*. Direct production for personal needs does not take place. Crisis results from the impossibility to sell. The difficulty of transforming the *commodity*—the particular product of individual labour—into its opposite, money, i.e., abstract general social labour, lies in the fact that *money* is not the particular product of individual labour, and that the person who has effected a sale, who therefore has commodities in the form of money, is not compelled to buy again at once, to transform the money again into a particular product of individual labour. In barter this contradiction does not exist: no one can be a seller without being a buyer or a buyer without being a seller. The difficulty of the seller—on the assumption that his commodity has use-value—only stems from the ease with which the buyer can defer the retransformation of money into commodity. The difficulty of converting the commodity into money, of selling it, only arises from the fact that the commodity must be turned into money but the money need not be immediately turned into commodity, and therefore *sale* and *purchase* can be separated. We have said that this *form* contains the *possibility of crisis*, that is to say, the possibility that elements which are correlated, which are inseparable, are separated and consequently are forcibly reunited, their coherence is violently asserted against their mutual independence. *Crisis* is nothing but the forcible assertion of the unity of phases of the production process which have become independent of each other.

The general, abstract possibility of crisis denotes no more than the *most abstract form* of crisis, without content, without a compelling motivating factor. Sale and purchase may fall apart. They thus represent potential *crisis* and their coincidence always remains a critical factor for the commodity. The transition from one to the other may, however, proceed smoothly. The *most abstract form of crisis* (and therefore the formal possibility of crisis) is thus the *metamorphosis of the commodity* itself; the contradiction of exchange-value and use-value, and furthermore of money and commodity, comprised within the unity of the commodity, exists in metamorphosis only as an involved movement. The factors which turn this possibility of crisis into [an actual] crisis are not contained in this form itself; it only implies that *the framework* for a crisis exists.

And in a consideration of the bourgeois economy, that is the important thing. The world trade crises must be regarded as the real concentration and forcible adjustment of all the contradictions of bourgeois economy. The individual factors, which are condensed in these crises, must therefore emerge and must be described in each sphere of the bourgeois economy, and the further we advance in our examination of the latter, the more aspects of this conflict must be traced on the one hand, and on the other hand it must be shown that its more abstract forms are recurring and are contained in the more concrete forms.

It can therefore be said that the crisis in its first form is the metamorphosis of the commodity itself, the falling asunder of purchase and sale.

The crisis in its second form is the function of money as a means of payment, in which money has two different functions and figures in two different phases, divided from each other in time. Both these forms are as yet quite abstract, although the second is more concrete than the first.

To begin with therefore, in considering the *reproduction process* of capital (which coincides with its circulation) it is necessary to prove that the above forms are simply repeated, or rather, that only here they receive a content, a basis on which to manifest themselves.

Let us look at the movement of capital from the moment in which it leaves the production process as a commodity in order once again to emerge from it as a commodity. If we abstract here from all the other factors determining its content, then the total commodity capital and each individual commodity of which it is made up, must go through the process C—M—C, the metamorphosis of the commodity. The general possibility of crisis, which is contained in this form—the falling apart of purchase and sale—is thus contained in the movement of capital, in so far as the latter is *also* commodity and nothing but commodity. From the interconnection of the metamorphoses of commodities it follows, moreover, that one commodity is transformed into money because another is retransformed from the form of money into commodity. Furthermore, the separation of purchase and sale appears here in such a way that the transformation of one capital from the form commodity into the form money, must correspond to the retransformation of the other capital from the form money into the form commodity. The first metamorphosis of one capital must correspond to the second metamorphosis of the other; one capital leaves the production process as the other capital returns into the production process. This intertwining and coalescence of the processes of reproduction or circulation of different capitals is on the one hand necessitated by the division of labour, on the other hand it is accidental; and thus the definition of the content of crisis is already fuller.

Secondly, however, with regard to the possibility of crisis arising from the form of money as *means of payment*, it appears that capital may provide a much more concrete basis for turning this possibility into reality. For example, the weaver must pay for the whole of the constant capital whose elements have been produced by the spinner, the flax-grower, the machine-builder, the iron and timber manufacturer, the producer of coal, etc. In so far as these latter produce constant capital that only enters into the production of constant capital, without entering into the cloth, the final commodity, they replace each other's means of production through the exchange of capital. Supposing the weaver now sells the cloth for £ 1,000 to the *merchant* but in return for a bill of exchange so that money figures as *means of payment*. The weaver for his part hands over the bill of exchange to the *banker*, to whom he may thus be repaying a debt or, on the other hand, the banker may negotiate the bill for him. The flax-grower has sold to the spinner in return for a bill of exchange, the spinner to the weaver, ditto the machine manufacturer to the weaver, ditto the iron and timber manufacturer to the machine manufacturer, ditto the coal producer to the spinner, weaver, machine manufacturer, iron and timber supplier. Besides, the iron, coal, timber and flax producers have paid one another with bills of exchange. Now if the merchant does not pay, then the weaver cannot pay his bill of exchange to the banker.

The flax-grower has drawn on the spinner, the machine manufacturer on the weaver and the spinner. The spinner cannot pay because the weaver cannot pay, neither of them pay the machine manufacturer, and the latter does not pay the iron, timber or coal supplier. And all of these in turn, as they cannot realise the value of their commodities, cannot replace that portion of value which is to replace their constant capital. Thus the general crisis comes into being. This is nothing other than the *possibility of crisis* described when dealing with money as a means of payment; but here—in capitalist production—we can already see the connection between the mutual claims and obligations, the sales and purchases, through which the possibility can develop into actuality.

In any case: If purchase and sale do not get bogged down, and therefore do not require forcible adjustment—and, on the other hand, money as means of payment functions in such a way that claims are mutually settled, and thus the contradiction inherent in money as a means of payment is not realised—if therefore neither of these two abstract forms of crisis become real, no crisis exists. No crisis can exist unless sale and purchase are separated from one another and come into conflict, or the contradictions contained in money as a means of payment actually come into play; crisis, therefore, cannot exist without manifesting itself at the same time in its simple form, as the contradiction between sale and purchase and the contradiction of money as a means of payment. But these are merely *forms*, general possibilities of crisis, and hence also forms, abstract forms, of actual crisis. In them, the nature of crisis appears in its simplest forms, and, in so far as this form is itself the simplest content of crisis, in its simplest content. But the content is not yet *substantiated*. Simple circulation of money and even the circulation of money as a means of payment—and both come into being long *before* capitalist production, while there are no crises—are possible and actually take place without crises. These forms alone, therefore, do not explain why their crucial aspect becomes prominent and why the potential contradiction contained in them becomes a real contradiction.

This shows how insipid the economists are who, when they are no longer able to explain away the phenomenon of over-production and crises, are content to say that these forms contain the possibility of *crises*, that it is therefore *accidental* whether or not crises occur and consequently their occurrence is itself merely a *matter of chance*.

The contradictions inherent in the circulation of commodities, which are further developed in the circulation of money—and thus, also, the possibilities of crisis—reproduce themselves, automatically, in capital, since developed circulation of commodities and of money, in fact, only take place on the basis of capital.

But now the further development of the potential crisis has to be traced—the real crisis can only be educed from the real movement of capitalist production, competition and credit—in so far as crisis arises out of the special aspects of capital which are *peculiar* to it as capital, and not merely comprised in its existence as commodity and money.

The mere (direct) *production process* of capital in itself, cannot add anything new in this context. In order to exist at all, its conditions are presupposed. The first section dealing with capital—the *direct* process of production—does not contribute any new element of crisis. Although it *does* contain such an element, because the production process implies appropriation and hence production of surplus-value. But this cannot be shown when dealing with the production process itself, for the latter is not concerned with the *realisation* either of the reproduced value or of the surplus-value.

This can only emerge in the *circulation process* which is in itself also a *process of reproduction.*

Furthermore it is necessary to describe the circulation or reproduction process before dealing with the already existing capital—*capital and profit*—since we have to explain, not only how capital produces, but also how capital is produced. But the actual movement starts from the existing capital—i.e., the actual movement denotes developed capitalist production, which starts from and presupposes its own basis. The process of reproduction and the predisposition to crisis which is further developed in it, are therefore only partially described under this heading and require further elaboration in the chapter on "*Capital and Profit.*"

The circulation process as a whole or the reproduction process of capital as a whole is the unity of its production phase and its circulation phase, so that it comprises both these processes or phases. Therein lies a further developed possibility or abstract form of crisis. The economists who deny crises consequently assert only the unity of these two phases. If they were only separate, without being a unity, then their unity could not be established by force and there could be no crisis. If they were only a unity without being separate, then no violent separation would be possible implying a crisis. Crisis is the forcible establishment of unity between elements that have become independent and the enforced separation from one another of elements which are essentially one.

On the Forms of Crisis

Therefore:

1. The general *possibility* of crisis is given in the process of *metamorphosis of capital* itself, and in two ways: in so far as money functions as *means of circulation,* [the possibility of crisis lies in] the separation of *purchase and sale*; and in so far as money func-

tions as *means of payment*, it has two different aspects, it acts as *measure of value* and *as realisation of value.* These two aspects [may] become separated. If *in the interval* between them the value has changed, if the commodity at the moment of its sale is not *worth* what it was *worth* at the moment when money was acting as a measure of value and therefore as a measure of the reciprocal obligations, then the obligation cannot be met from the *proceeds of the sale of the commodity*, and therefore the whole series of transactions which retrogressively depend on this one transaction, cannot be settled. If even for only *a limited period of time* the commodity cannot be sold then, although its value has not altered, *money* cannot function as *means of payment*, since it must function as such in a *definite given period of time.* But as the same sum of money acts for a whole series of reciprocal transactions and obligations here, *inability to pay* occurs not only at one, but at many points, hence a *crisis* arises.

These are the *formal possibilities* of crisis. The form mentioned first is possible without the latter—that is to say, crises are possible without credit, without money functioning as a means of payment. But the second form is not possible *without the first*—that is to say, without the separation between purchase and sale. But in the latter case, the crisis occurs not only because the commodity is unsaleable, but because it is not saleable within a *particular period of time*, and the crisis arises and derives its character not only from the *unsaleability* of the commodity, but from the *non-fulfilment of a whole series of payments* which depend on the sale of this particular commodity within this particular period of time. This is the *characteristic form of money crises.*

If the *crisis* appears, therefore, because purchase and sale become separated, it becomes a *money crisis*, as soon as money has developed as *means of payment*, and this *second form* of crisis follows as a matter of course, when the *first occurs*. In investigating why the general *possibility of crisis* turns into a *real* crisis, in investigating the *conditions* of crisis, it is therefore quite superfluous to concern oneself with the *forms* of crisis which arise out of the development of money as *means of payment.* This is precisely why economists like to suggest that this *obvious* form is the *cause* of crises. (In so far as the development of money as means of payment is linked with the development of credit and of *excess credit* the causes of the latter have to be examined, but this is not yet the place to do it.)

2. In so far as crises arise from *changes in prices and revolutions in prices*, which do not coincide with *changes in the values* of commodities, they naturally cannot be investigated during the examination of capital in general, in which the prices of commodities are assumed to be *identical* with the *values* of commodities.

3. The *general possibility* of crisis is the formal *metamorphosis* of capital itself, the separation, in time and space, of purchase and sale. But this is never the *cause* of the crisis. For it is nothing but the *most general form of crisis*, i.e., the crisis itself in *its most generalised expression*. But it cannot be said that the *abstract form of crisis* is the *cause of crisis*. If one asks what its cause is, one wants to know why *its abstract form*, the form of its possibility, turns from possibility into *actuality*.

4. The *general conditions* of crisis, in so far as they are independent of *price fluctuations* (whether these are linked with the credit system or not) as distinct from fluctuations in value, must be explicable from the general conditions of capitalist production.

(A *crisis* can arise: 1. in the course of the *reconversion* [of money] *into productive capital*; 2. through *changes in the value* of the elements of productive capital, particularly of *raw material*, for example when there is a decrease in the quantity of cotton harvested. Its *value* will thus rise. We are not as yet concerned with prices here but with *values*.)

First Phase. The *reconversion of money into capital*. A definite level of *production or reproduction* is assumed. Fixed capital can be regarded here as given, as remaining unchanged and not entering into the *process of the creation of value*. Since the reproduction of raw material is not dependent solely on the labour employed on it, but on the productivity of this labour which is bound up with *natural conditions*, it is possible for the volume, the *amount* of the product of the *same* quantity of labour, to fall (as a result of bad *harvests*). The *value of the raw material therefore rises*; its *volume* decreases, in other words the *proportions* in which the money has to be reconverted into the *various component parts of capital* in order to continue production on the former scale, are upset. More must be expended on *raw material*, less remains for *labour*, and it is not possible to absorb the same quantity of labour as before. Firstly this is *physically impossible*, because of the deficiency in raw material. *Secondly*, it is impossible because a greater *portion of the value of the product* has to be converted into raw material, thus leaving less for conversion into *variable capital*. Reproduction cannot be *repeated* on the same scale. A part of *fixed capital* stands idle and a part of the workers is thrown out on the streets. The *rate of profit* falls because the value of constant capital has risen as against that of variable capital and less variable capital is employed. The fixed charges—interests, rent—which were based on the anticipation of a *constant* rate of profit and exploitation of labour, remain the same and in part *cannot be paid*. Hence *crisis*. Crisis of labour and crisis of capital. This is therefore a *disturbance in the reproduction process* due to the increase in the value of that part of constant capital which has to be replaced out of the value of the product. Moreover, although the *rate of profit* is decreasing, there is a *rise in the price of the product.* If this product enters into other spheres of production as a means of production, the rise in its price will result in the same disturbance in *reproduction* in these spheres. If it enters into general consumption as a means of subsistence, it either enters also into *the consumption of the workers* or *not.* If it does so, then its effects will be the same as those of a disturbance in *variable capital,* of which we shall speak later. But in so far as it enters into *general consumption* it may result (if its consumption is not reduced) in a diminished *demand* for other products and consequently *prevent their reconversion* into money at their value, thus disturbing the *other aspect* of their reproduction—not the *reconversion of money* into productive capital but the *reconversion* of commodities into money. In any case, the *volume of profits* and the *volume of wages* is reduced in this branch of production thereby reducing a *part of the necessary returns* from the sale of commodities from other branches of production.

Such a *shortage* of *raw material* may, however, occur not only because of the *influence of harvests* or of the *natural productivity* of the labour which supplies the raw material. For if an *excessive portion of the surplus-value, of the additional capital,* is laid out in machinery etc. in a particular branch of production, then, although the raw material would have been sufficient for the *old level of production,* it will be insufficient for the *new.* This therefore arises from the *disproportionate* conversion of additional capital into its various elements. It is a case of *over-production of fixed capital* and gives rise to exactly the same phenomena as occur in the first case. (See the previous page.)[2]

Or they [the crises] are due to an *over-production of fixed capital* and therefore a relative under-production of circulating capital.

Since fixed capital, like circulating, consists of commodities, it is quite ridiculous that the same economists who admit the *over-production of fixed capital,* deny the *over-production of commodities.*

2. In the manuscript, the upper left-hand corner of the next page has been torn away. Consequently, out of the first nine lines of the text, only the right ends of six lines have been preserved. This does not make it possible to reproduce the complete text here, but it does permit us to surmise that Marx speaks here of crises which arise "out of [the] *revolution in the value* of the variable capital." The "increased price of the *necessary means of subsistence*" caused, for example, by a poor harvest, leads to a rise in costs for those workers who "are set in motion by variable capital." "At the same time, this rise" causes a fall in the demand for "*all other commodities* that do not enter into the consumption" of the workers. It is therefore impossible "to sell the commodities at their value; the first *phase* in their reproduction," the transformation of the commodity into money, is interrupted. The increased price of the means of subsistence thus leads to "crisis in other branches" of production.

The two last lines of the demaged part of the page seem to summarize this train of thought, by saying that crises can arise as a result of increased prices of raw materials, "whether these raw materials enter as raw materials into constant capital or as means of subsistence" into the consumption of the workers.

5. *Crises arising from disturbances in the first phase of reproduction:* that is to say, interrupted conversion of commodities into money or *interruption of sale*. In the case of crises of the first sort [which result from the rise in the price of raw materials] the crisis arises from interruptions in the *flowing back* of the elements of productive capital.

The Contradiction Between the Impetuous Development of the Productive Powers and the Limitations of Consumption Leads to Over-Production. The Theory of the Impossibility of General Over-Production Is Essentially Apologetic in Tendency.

The word *over-production* in itself leads to error. So long as the most urgent needs of a large part of society are not satisfied, or *only* the most immediate needs are satisfied, there can of course be absolutely no talk of an *over-production of products*— in the sense that the amount of products is excessive in relation to the need for them. On the contrary, it must be said that on the basis of capitalist production, there is constant *under-production* in this sense. The limits to production are set by the profit of the capitalist and in no way by the needs of the producers. But over-production of products and over-production of *commodities* are two entirely different things. If Ricardo thinks that the *commodity* form makes no difference to the product, and furthermore, that *commodity circulation* differs only formally from barter, that in this context the exchange-value is only a fleeting form of the exchange of things, and that money is therefore merely a formal means of circulation—then this in fact is in line with his presupposition that the bourgeois mode of production is the absolute mode of production, hence it is a mode of production without any definite specific characteristics, its distinctive traits are merely formal. He cannot therefore admit that the bourgeois mode of production contains within itself a barrier to the free development of the productive forces, a barrier which comes to the surface in crises and, in particular, in *over-production*—the basic phenomenon in crises.

Ricardo saw from the passages of Adam Smith, which he quotes, approves, and therefore also repeats, that the limitless "desire" for all kinds of use-values is always satisfied on the basis of a state of affairs in which the mass of producers remains more or less restricted to necessities—"food" and other "necessaries"—that consequently this great majority of producers remains more or less excluded from the consumption of wealth—in so far as wealth goes beyond the bounds of the necessary means of subsistence.

This was indeed also the case, and to an even higher degree, in the ancient mode of production which depended on slavery. But the ancients never thought of transforming the surplus-product into capital. Or at least only to a very limited extent. (The fact that the hoarding of treasure in the narrow sense was widespread among them shows how much surplus-product lay completely idle.) They used a large part of the surplus-product for unproductive expenditure on art, religious works and public works. Still less was their production directed to the release and development of the material productive forces—division of labour, machinery, the application of the powers of nature and science to private production. In fact, by and large, they never went beyond handicraft labour. The wealth which they produced for private consumption was therefore relatively small and only appears great because it was amassed in the hands of a few persons, who, incidentally, did not know what to do with it. Although, therefore, there was no *over-production* among the ancients, there was *over-consumption* by the rich, which in the final periods of Rome and Greece turned into mad extravagance. The few trading peoples among them lived partly at the expense of all these essentially poor nations. It is the unconditional development of the productive forces and therefore mass production on the basis of a mass of producers who are confined within the bounds of the necessary means of subsistence on the one hand and on the other, the barrier set up by the capitalists' profits, which [forms] the basis of modern over-production.

All the objections which Ricardo and others raise against over-production etc. rest on the fact that they regard bourgeois production either as a mode of production in which no distinction exists between purchase and sale—direct barter—or as *social* production, implying that society, as if according to a plan, distributes its means of production and productive forces in the degree and measure which is required for the fulfilment of the various social needs, so that each sphere of production receives the *quota* of social capital required to satisfy the corresponding need. This fiction arises entirely from the inability to grasp the specific form of bourgeois production and this inability in turn arises from the obsession that bourgeois production is production as such, just like a man who believes in a particular religion and sees it as *the* religion, and everything outside of it only as *false* religions.

On the contrary, the question that has to be answered is: since, on the basis of capitalist production, everyone works for himself and a particular labour must at the same time appear as its opposite, as abstract general labour and in this form as social labour—how is it possible to achieve the necessary balance and interdependence of the various spheres of production, their dimensions and the proportions between them, except through the constant neutralisation of a constant disharmony? This is admitted by those who speak of adjustments through competition, for these adjustments always presuppose that there is something to adjust, and therefore that harmony is always only a result of the movement which neutralises the existing disharmony.

That is why Ricardo admits that a glut of certain commodities is possible. What is supposed to be *impossible* is only a simultaneous general glut of the market. The possibility of over-production in any particular sphere of production is therefore not denied. It is the *simultaneity* of this phenomenon for *all* spheres of production which is said to be impossible and therefore makes impossible [general] over-production and thus a general glut of the market. (This expression must always be taken *cum grano salis,* since in times of general over-production, the over-production in some spheres is always only the *result*, the *consequence*, of over-production in the leading articles of commerce; [it is] always only *relative*, i.e., over-production because over-production exists in other spheres.)

Apologetics turns this into its very opposite. [There is only] over-production in the leading articles of commerce, in which alone, active over-production shows itself—these are on the whole articles which can only be produced on a mass scale and by factory methods (also in agriculture), because over-production exists in those articles in which relative or passive over-production manifests itself. According to this, over-production only exists because over-production is not universal. The *relativity* of over-production—that actual over-production in a few spheres calls forth over-production in others—is expressed in this way: There is no *universal* over-production, because if over-production were universal, all spheres of production would retain the same relation to one another; therefore *universal* over-production is proportional production which excludes over-production. And this is supposed to be an argument against universal over-production. For, since *universal over-production* in the absolute sense would not be over-production but only a greater than usual development of the productive forces in all spheres of production, it is alleged that *actual over-production*, which is precisely not this non-existent, self-abrogating over-production, does *not* exist—although it only exists because it is not this.

If this miserable sophistry is more closely examined, it amounts to this: Suppose, that there is over-production in iron, cotton goods, linen, silk, woollen cloth etc.; then it cannot be said, for example, that too little coal has been produced and that this is the reason for the above over-production. For that over-production of iron etc. involves an exactly similar over-production of coal, as, say, the over-production of woven cloth does of yarn. (Over-production of yarn as compared with cloth, iron as compared with machinery, etc., could occur. This would always be a relative over-production of constant capital.) There cannot, therefore, be any question of the under-production of those articles whose over-production is implied because they enter as an element, raw material, auxiliary material or means of production, into those articles (the "particular commodity of which too much may be produced, of which there may be such a glut in the market, as not to repay the capital expended on it" (pp. 341–42), whose positive over-production is precisely the fact to be explained. Rather, it is a question of other articles which belong directly to [other] spheres of production and [can] neither [be] subsumed under the leading articles of commerce which, according to the assumption, have been over-produced, nor be attributed to spheres in which, because they supply the *intermediate product* for the leading articles of commerce, production must have reached at least the same level as in the final phases of the product—although there is nothing to prevent production in those spheres from having gone even further ahead thus causing an over-production within the over-production. For example, although sufficient coal must have been produced in order to keep going all those industries into which coal enters as necessary condition of production, and therefore the *over-production* of coal is implied in the *over-production* of iron, yarn etc. (even if coal was produced only in proportion to the production of iron and yarn [etc.]), it is *also* possible that more coal was produced than was required even for the over-production of iron, yarn etc. This is not only possible, but very probable. For *the production of coal and yarn* and of all other spheres of production which produce only the conditions or earlier phases of a product to be completed in another sphere, is governed not by the immediate demand, by the immediate production or reproduction, but by the *degree, measure, proportion* in which these are expanding. And it is self-evident that in this calculation, the target may well be overshot. Thus not enough has been produced of other articles such as, for example, pianos, precious stones, etc., they have been *under-produced*. (There are, however, also cases where the over-production of non-leading articles is not the result of over-production, but where, on the contrary, *under-production* is the cause of over-production, as for instance when there has been a failure in the grain crop or the cotton crop.)

The absurdity of this statement becomes particularly marked if it is applied to the international scene, as it has been by Say and others after him. For instance, that England has not *over-produced* but Italy has *under-produced*. There would have been no over-production, if in the first place Italy had enough capital to replace the

English capital exported to Italy in the form of commodities; and secondly if Italy had invested this capital in such a way that it produced those particular articles which are required by English capital—partly in order to replace itself and partly in order to replace the revenue yielded by it. Thus the fact of the actually existing *over-production in England*—in relation to the *actual* production in Italy—would not have existed, but only the fact of *imaginary under-production* in *Italy;* imaginary only because it presupposes a capital in Italy and a development of the productive forces that do not exist there, and secondly because it makes the equally utopian assumption, that this capital which does *not* exist in Italy, has been employed in exactly the way required to make English supply and Italian demand, English and Italian production, complementary to each other. In other words, this means nothing but: there would be no over-production, if demand and supply corresponded to each other, if the capital were distributed in such proportions in all spheres of production, that the production of one article involved the consumption of the other, and thus its own consumption. There would be no over-production, if there were no over-production. Since, however, capitalist production can allow itself free rein only in certain spheres, under certain conditions, there could be no capitalist production at all if it had to develop *simultaneously* and *evenly* in all spheres. Because absolute over-production takes place in certain spheres, relative over-production occurs also in the spheres where there has been no over-production.

This explanation of over-production in one field by under-production in another field therefore means merely that if production were proportionate, there would be no over-production. The same could be said if demand and supply corresponded to each other, or if all spheres provided equal opportunities for capitalist production and its expansion—division of labor, machinery, export to distant markets etc., mass production, i.e., if all countries which traded with one another possessed the same capacity for production (and indeed for different and complementary production). Thus over-production takes place because all these pious wishes are not fulfilled. Or, in even more abstract form: There would be no over-production in one place, if over-production took place to the same extent everywhere. But there is not enough capital to over-produce so universally, and therefore there is partial over-production.

Let us examine this fantasy more closely:

It is admitted that there can be over-production in *each particular* industry. The only circumstance which could prevent over-production in *all* industries simultaneously is, according to the assertions made, the fact that commodity exchanges against commodity—i.e., recourse is taken to the supposed conditions of barter. But this loop-hole is blocked by the very fact that trade [under capitalist conditions] is not barter, and that therefore the seller of a commodity is not necessarily at the same time the buyer of another. This whole subterfuge then rests on abstracting from *money* and from the fact that we are not concerned with the exchange of products, but with the circulation of commodities, an essential part of which is the separation of purchase and sale.

The circulation of capital contains within itself the *possibilities* of interruptions. In the reconversion of money into its conditions of production, for example, it is not only a question of transforming money into the same use-values (in kind), but for the repetition of the reproduction process [it is] essential that these use-values can again be obtained at their old value (at a lower value would of course be even better). A very significant part of these elements of reproduction, which consists of raw materials, can however rise in price for two reasons. *Firstly,* if the instruments of production increase more rapidly than the amount of raw materials that can be provided at the given time. *Secondly,* as a result of the variable character of the harvests. That is why weather conditions, as Tooke rightly observes, play such an important part in modern industry. (The same applies to the means of subsistence in relation to wages.) The reconversion of money into commodity can thus come up against difficulties and can create the possibilities of crisis, just as well as can the conversion of commodity into money. When one examines simple circulation—not the circulation of capital—these difficulties do not arise. (There are, besides, a large number of other factors, conditions, possibilities of crises, which can only be examined when considering the concrete conditions, particularly the competition of capitals and credit.)

The over-production of commodities is denied but the *over-production of capital* is admitted. Capital itself however consists of commodities or, in so far as it consists of money, it must be reconverted into commodities of one kind or another, in order to be able to function as capital. What then does *over-production of capital* mean? Over-production of value destined to produce surplus-value or, if one considers the material content, over-production of commodities destined for reproduction—that is, *reproduction on too large a scale,* which is the same as over-production pure and simple.

Defined more closely, this means nothing more than that too much has been produced for the purpose of *enrichment,* or that too great a part of the product is intended not for consumption as revenue, but *for making more money* (for accumulation): not to satisfy the personal needs of its owner, but to give him money, abstract social riches and capital, more power over the labour of others, i.e., to increase this power. This is what one side says. (Ricardo denies it.) And the other side, how does it explain the over-production of commodities? By saying that production is not sufficiently diversified, that certain articles of consumption have not been produced in sufficiently large quantities. That it is not a matter of industrial consumption is obvious, for the manufacturer who over-produces linen, thereby necessarily increases his demand for yarn, machinery, labour etc. It is therefore a question of personal consumption. Too much linen has been produced, but perhaps too few oranges. Previously the existence of money was denied, in order to show [that there was no] separation between sale and purchase. Here the existence of capital is denied, in order to transform the capitalists into people who carry out the simple operation C—M—C and who produce for individual consumption and not *as* capitalists with the aim of enrichment, i.e., the reconversion of part of the surplus-value into capital. But the statement that there is *too much capital*, after all means merely that too little is consumed as *revenue*, and that more cannot be consumed in the given conditions. (*Sismondi.*) Why does the producer of linen demand from the producer of corn, that he should consume more linen, or the latter demand that the linen manufacturer should consume more corn? Why does the man who produces linen not himself convert a larger part of his revenue (surplus-value) into linen and the farmer into corn? So far as each individual is concerned, it will be admitted that his desire for capitalisation (apart from the limits of his needs) prevents him from doing this. But for all of them collectively, this is not admitted.

(We are entirely leaving out of account here that element of crises which arises from the fact that commodities are reproduced more cheaply than they were produced. Hence the depreciation of the commodities on the market.)

In world market crises, all the contradictions of bourgeois production erupt collectively; in particular crises (*particular* in their content and in extent) the eruptions are only sporadical, isolated and one-sided.

Over-production is specifically conditioned by the general law of the production of capital: to produce to the limit set by the productive forces, that is to say, to exploit the maximum amount of labour with the given amount of capital, without any consideration for the actual limits of the market or the needs backed by the ability to pay; and this is carried out through continuous expansion of reproduction and accumulation, and therefore constant reconversion of revenue into capital, while on the other hand, the mass of the producers remain tied to the average level of needs, and must remain tied to it according to the nature of capitalist production.