
17

Marxian Crisis Theory and the Contradictions of Late Twentieth-Century Capitalism

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In this paper I raise the following question: does Marxian crisis theory provide a useful framework within which to analyze late twentieth-century capitalism? My answer, baldly put, is no. Not that contemporary capitalism is free of any crisis tendencies; quite the contrary. But the kind of crisis tendencies on which Marxian crisis theory has focused attention are, I believe, becoming less and less relevant to contemporary capitalist societies, while different sources of capitalist crisis are becoming increasingly significant. Indeed, I will argue that to gain an understanding of the type of generalized crisis to which the advanced capitalist nations are likely to become increasingly vulnerable in the future, we must look not to Karl Marx but to David Ricardo and to Karl Polanyi.

I begin in section 1 with a review of Marxian crisis theory in its various formulations, drawing both on Marx’s own writings and on the writings of contemporary Marxian scholars. In section 2, I address two key questions: is late twentieth-century capitalism significantly different than the capitalism that developed in the early decades following World War II. and is it possible that the world capitalist system is now emerging from the generalized economic crisis which plagued it in the 1970s and at least the early 1980s? Tentatively affirmative answers to these questions lead me in section 3 to suggest that changes in the internal character and external environment of the capitalist system have rendered Marxian crisis theory increasingly irrelevant as a basis for analyzing the evolution and potential contradictions of contemporary capitalism. In sections 4 and 5, I seek to analyze what I believe to be the two most important potential sources of contradictions in contemporary capitalism: the deterioration of the natural environment and the deterioration of the social environment, respectively. I conclude in section 6 with some more speculative observations about the nature of the crisis tendencies of late twentieth-century capitalism and the kind of structural transformation that might be necessary to overcome them.

A Brief Review of Marxian Crisis Theory

Marx’s Own Writings

Capitalism, for Karl Marx, was a mode of production that would foster a historically unprecedented rate of capital accumulation and a consequently rapid development of the forces of production. Yet Marx also argued that capitalism would subject itself periodically to serious structural crises—crises that would disrupt the process of accumulation and ultimately threaten the viability of the mode of production itself. The possibility of such structural crises he attributed to the use of money in exchange and the anarchy of capitalist production. But the mechanism generating crises, according to Marx, was the internally contradictory nature of the accumulation process under the capitalist mode of production: as he expressed it in *Capital*, volume 3, “the true barrier to capitalist production is capital itself” (1967, 250).

The theory of capitalist economic crisis that Marx developed most fully in *Capital* was linked to his “law of the tendency of the rate of profit to fall.” According to this law, the capitalist accumulation process generates a rise in the organic composition of capital (usually interpreted as the ratio of constant capital to variable capital, a measure of the capital-intensity of production). The rise in this ratio is contradictory in that it tends to erode the basis (variable capital) on which surplus value is created, thus reducing the rate of profit (the ratio of surplus value to total—constant plus variable—capital). Marx identified five possible counteracting tendencies to this logic, but he believed that in the long run an inexorable rise in the organic composition of capital (ROCC) would force down the rate of profit and thereby ultimately arrest the accumulation process itself.

Elsewhere in *Capital*, Marx alluded to different kinds of internal contradictions that could lead to capitalist crisis. One of these was the tendency of the capitalist accumulation process to restrict the purchasing power of the masses (i.e., workers, as distinct from capitalists). Since workers generally need to spend most or all of their income in purchasing the necessities of life, while capitalists need not do so, a shift in the distribution of income against wages and in favor of profits would tend to depress the total demand for commodities. If and when this occurred, capitalists would not be able to sell (at full value) all of the commodi-
ties they had produced, and a crisis of failure to “realize” surplus value would ensue. Although Marx himself did not explicitly draw such a conclusion, the logic of this realization failure (RF) argument points to a long-run secular tendency toward economic stagnation in capitalist economies.

Yet another possible source of crisis identified by Marx was the tendency for the capitalist accumulation process to deplete the excess supply of labor represented by the “industrial reserve army.” Depletion of the industrial reserve army is contradictory for the accumulation process because it makes it more problematical for capitalists to fire workers and thus it tends to strengthen the bargaining power of the working class. A stronger bargaining position enables workers to claim a higher share of income in wages, which in turn is likely to result in a fall in the rate of profit and a fall in the rate of accumulation. Because the slowdown in accumulation would itself tend to replenish the reserve army, Marx viewed this depletion of the reserve army (DRA) crisis scenario as one that could explain a cyclical pattern of boom and crisis but not a long-run secular tendency toward a major structural crisis.

Each of the three variants of Marxian crisis theory highlighted by this brief review points to a different possible source of capitalist economic crisis. In the language of contemporary economics, the potential sources of crisis can be described as follows: (1) accumulation-induced changes in the development and application of technology, which reduce the rate of profit by reducing the output generated by a unit of capital; (2) accumulation-induced changes in the pattern of spending, which lead to a deficiency in aggregate demand relative to aggregate supply; and (3) accumulation-induced changes in the relative power of workers and capitalists, which reduce the rate of profit by reducing the share of output going to capital. These three alternative variants of Marxian crisis theory are based on putative contradictions of accumulation arising in the spheres of production, circulation, and distribution, respectively.

The Work of Contemporary Marxian Political Economists

Since Marx’s time many Marxian scholars have sought to develop and extend his analysis of capitalist economic crises in such a way as to shed light on the actual experience of industrialized capitalist economies. A variety of different crisis theories has been advanced to explain periods of capitalist crisis; but almost all of these theories can be associated in their general approach with one of the three variants—ROCC, RF, or DRA—of Marx’s own crisis analysis described above.

The essence of Marx’s ROCC theory of crisis is that the development of technology and/or the choice of techniques of production by individual competing capitalist firms, each seeking to improve its own competitive position through profit-making and capital accumulation, results at the aggregate level in a decline in the ratio of output to capital stock and a consequent decline in the rate of profit. This argument has generated an extensive debate among modern Marxian economists as to the conditions under which it could possibly be valid. Okishio (1961) and others (Steelman 1977; Roemer 1979; Bowles 1981) have shown that if the real wage is held constant, there is no way in which the introduction of new techniques of production by competitive profit-maximizing capitalist firms could lead to a decline in the aggregate rate of profit. But proponents of the ROCC theory have questioned whether the real wage should be held constant, and they have formulated several more or less plausible scenarios under which a process of technological change by competitive capitalist firms could (but need not necessarily) end up lowering the aggregate rate of profit (see Shaikh 1982; Foley 1986, ch. 8; Laibman 1987).

The essence of Marx’s RF theory of crisis is that the capitalist accumulation process operates to distribute purchasing power in such a way that aggregate demand does not keep pace with the aggregate supply of commodities. This argument has been most fully developed by Sweezy (1942) and Baran and Sweezy (1966), and it has an obvious affinity with Keynesian macroeconomic theory. In distinguishing sharply between capitalists and workers and their respective incomes and spending patterns, however, it is more Marxian (and Kaleckian) in spirit. Most modern proponents of an RF theory of long-run capitalist stagnation link its relevance to the rise of giant corporations in the twentieth-century “monopoly” phase of capitalist development (see Steindl 1952; Baran and Sweezy 1966; Foster 1987). It is argued that the real purchasing power of the working class will be more restricted by monopolistic than by competitive firms, and/or that incentives to invest will be restrained by monopolistic competition.

Marx’s DRA theory of crisis is grounded in conflict between capitalists and workers over the distribution of income, and the relative ability of each class to exercise power on behalf of its own distributive claim. Although intended by Marx to serve as an explanation of the cyclical downturns (and upturns) associated with the short-run capitalist business cycle, its basic logic can also be applied to deeper and longer economic crises (and booms)—such as those associated with long waves in capitalist development. The DRA approach has been extended by contemporary Marxian scholars (Rowthorn 1976; Bowles, Gordon, and Weisskopf 1983, 1990; Weisskopf, Bowles, and Gordon 1985) to include additional sources of distributive claims conflicting with the capitalist claim of profits, such as the income claims advanced by foreigners (via the terms of international trade) and domestic citizens (via state taxation). The scope of the theory has also been extended beyond conflict over distributive shares to conflict over other factors that affect the profit rate—for example, the output-capital ratio, which depends inter alia on technological choices made by capitalists seeking to maintain effective control over workers, and on government regulation of business in response to popular demands to protect citizen interests (see Bowles, Gordon, and Weisskopf 1986). With such extensions the DRA theory becomes a more general “challenges to capitalist power” (CCP) theory of capi-
Is Late Twentieth-Century Capitalism Still in Crisis?

Characterization of Late Twentieth-Century Capitalism

From the end of World War II up to the early 1970s the world capitalist economy experienced a period of rapid economic growth and capital accumulation which was unprecedented in scope. This long-wave boom—sometimes labelled the postwar “golden age” of world capitalism—was followed by a period of generalized economic crisis extending into the early 1980s. Whether this crisis is continuing up to the present time, or, alternatively, whether a new period of boom has begun in the 1980s, remains a matter of some controversy. What is clear, however, is that—partly as a consequence of the economic crisis in the 1970s—the institutional structure of the capitalist mode of production has undergone some important changes in recent years.

The institutional structure of the advanced capitalist economies in the first three decades following World War II could aptly be described as “welfare state capitalism.” During this period, for the first time, all of the major features of the welfare state were in place (to different degrees, of course, in different countries). These welfare state features included a government commitment to maintain relatively high employment by means of Keynesian demand management, an extensive public system of social security, public provision for unemployment compensation, and in general an important role for the state both as purchaser and allocator of goods and services and as regulator of private businesses and labor markets.

With the growing economic crisis of the 1970s, however, pressures began to mount to change some of the basic structural characteristics of the post–World War II advanced capitalist economies. Right-wing political forces were successful in attributing much of the blame for the crisis to the “excesses” of the welfare state, and by the late 1970s and early 1980s right-wing parties desirous of cutting back the economic role of the state had scored significant political successes in national elections in many of the advanced capitalist countries. Especially notable were the electoral victories of Margaret Thatcher in the United Kingdom in 1979 and Ronald Reagan in the United States in 1980; their parties and ideological positions have remained dominant up to the present time. Most centrist and left-wing parties, feeling the pressure from the Right, have also modified their own economic policy positions in directions that would curb the extent and impact of the welfare state.

Contributing significantly to these changes has been the growing international economic integration of the world capitalist system. Active international markets for capital as well as goods and services have put increasing competitive pressure on business firms everywhere, and—most important—they have made it more difficult for individual governments to maintain national policies of any kind. In this context political coalitions supporting the major elements of welfare
state capitalism have lost much ground to their neoconservative rivals, who favor further integration into the global market and the unleashing of market forces everywhere.

In view of all these developments, I think it is fair to conclude that the post–World War II system of welfare state capitalism has given way in the 1980s to a new type of system in the advanced capitalist nations. The new system does not dispense with the welfare state, but it reduces significantly the economic role of the nation-state and it gives pride of place to market forces on a world scale. To characterize this new system, I will use the label “global market capitalism.”

Performance by Conventional Quantitative Criteria

Does global market capitalism show any signs of generating a new long-wave economic boom in the wake of the crisis of the 1970s and early 1980s? In the decade following 1973 conventional macroeconomic performance indicators—such as the rate of GNP growth, the rate of labor productivity growth, the rate of unemployment, and the rate of inflation—painted an incontrovertible picture of growing stagflation in the capitalist world, culminating in the deep worldwide recession of the early 1980s. Since then, however, the picture has been rather more mixed. Across the advanced capitalist economies there have been signs both of improvement and of continuing stagnation in aggregate macroeconomic performance.

In a few of the advanced capitalist economies—most notably the United States—there was a strong recovery of both output and employment after the nadir of the early 1980s. The Japanese economy, which suffered less in the hard times than most other capitalist economies, continued to record relatively high output growth throughout the 1980s—albeit with slowly rising unemployment rates. Most of the Western European economies showed faster output and productivity growth in the 1980s than in the 1970s, although unemployment has remained well above the levels achieved in the golden years before 1973. In all of these economies the rate of inflation has declined considerably from its level in the 1970s. Overall, in terms of such aggregate macroeconomic performance indicators, the 1980s were still closer to the stagnation of the 1970s than to the boom conditions of the “golden age”; but there is little question that the trend through the last decade has been upward.

The same mixed pattern is displayed by the two indicators of capitalist vitality most strongly highlighted by Marxian crisis theory—the rate of profit and the rate of capital accumulation. Profit and accumulation rates across the advanced capitalist economies were generally buoyant in the 1950s and 1960s, then dropped sharply in the late 1960s or early 1970s and remained very low into the early 1980s. Since then, however, they have risen again—though not to levels comparable with those of the 1960s.

It is surely too early to declare that the most recent generalized capitalist economic crisis is over; but with each year that passes without a major downturn, such a conclusion appears more warranted. Indeed, I believe that if one confines attention to the kind of aggregate macroeconomic performance indicators I have mentioned here, the decade beginning around 1983 may well be seen as one in which the major capitalist economies rebounded from the doldrums of the 1970s and early 1980s to generate considerably more satisfactory macroeconomic performance.

Would this kind of macroeconomic recovery suggest that global market capitalism has been successful in rescuing a faltering capitalist system from its earlier crisis condition? In a limited sense, I think the answer is yes. Capitalism has proved itself historically to be a resilient economic system, capable of regenerating its economic dynamism after each major economic crisis in the past. Throughout the capitalist world today there are new signs of economic dynamism, although these are by no means ubiquitous across the economic landscape.

Still, in terms of its ability to deliver the goods, modern capitalism appears to have a great deal of life left in it. Anyone waiting for a terminal collapse in the capacity of capitalist economies to generate profits, capital accumulation, and economic growth is likely to have to wait a great deal longer.

Performance by Increasingly Relevant Qualitative Criteria

Even if capitalism does continue to deliver the goods by conventional performance criteria, however, it does not follow that the capitalist system can be expected to grow smoothly and without contradictions for the foreseeable future, much less that it is a system that is capable of meeting real human needs. On the contrary, there is increasing evidence that the present direction of the advanced capitalist economies—however successful it may become in terms of conventional indicators of profitability, capital accumulation, and economic growth—is giving rise to increasingly serious problems.

To analyze capitalism in general, and contemporary global market capitalism in particular, in terms of conventional indicators of macroeconomic performance is to do so on the most favorable possible terms. In order to gain an understanding of the contradictions most likely to disrupt capitalist economic performance in the late twentieth century, one has to look first at several aspects of the current performance of the advanced capitalist economies that are obscured by conventional macroeconomic indicators.

The danger signals for the world capitalist system in the early 1990s are numerous. Economic stagnation and high unemployment still characterize many regions; major trade imbalances abound; the international debt situation is routinely described as one of crisis; and the burden of financing public programs and transfers is proving onerous to many governments, both national and local. But the single development that looms as most threatening in the long run is the deterioration of the natural environment.

In the late 1980s and early 1990s reports of the growing depletion of the
atmospheric ozone layer, the gradual warming of the earth's temperature, the
destruction of tropical rainforests, the salinization and desertification of crop
lands, and so on, have underlined an ecological crisis of increasing proportions.
The capacity of the earth to support life, to provide natural resource inputs, and
to absorb waste products has been increasingly tested with each passing year.
Capitalism has historically been highly successful at delivering a rapid rate of
growth of material production and consumption; but now rapid economic
growth, far from being a solution to the problems generated by capitalist develop-
ment, is increasingly contributing to the magnitude of those problems via its
impact on the natural environment.

Of course the capitalist economies are not the only ones that contribute to and
are threatened by an ecological crisis. This is a global phenomenon and a global
problem. But capitalism is clearly the dominant mode of production in the world,
responsible for the lion's share of resource use, production, consumption, and
waste disposal. And capitalist economies, especially when operating under mar-
ket-oriented policies, are especially prone to generate ecologically unhealthy
effects. This is both because environmental costs of production are largely exter-
nal to the profit-maximizing calculus of individual firms, and because the kind of
comprehensive planning necessary to assure ecologically sound resource use is
anathema to capitalist free marketeers. Thus there is every reason to believe that
under global market capitalism the deterioration of the natural environment will
become increasingly serious in the 1990s.

It is not only the natural environment that is threatened by the contemporary
pattern of capitalist development; the same can be said of the "social environ-
ment." Under global market capitalism the capitalist economies of the world are
generating increasing inequalities—by region, race, class, and gender—and in-
creasing insecurity and instability for a large fraction of their populations. Eco-
nomic divisions and economic insecurity lead to political and social tensions that
can bring about a decline in the quality of life for everyone, as the social envi-
ronment loses its capacity to sustain civil peace and harmony.

Evidence of the unusual degree of inequality fostered by capitalist growth
under global market capitalism is provided by the very uneven pattern of recovery
from the depths of the economic crisis in the early 1980s. Most of the
advanced capitalist countries were characterized by rapid growth in certain fa-
vored regions (e.g., the two coasts in the United States, the south in the United
Kingdom and Germany) and continuing stagnation in other regions (the Midwest
and the farm states in the United States, the northern regions of the United
Kingdom and Germany). Within the advanced capitalist nations service sectors
have boomed while manufacturing sectors have generally languished. Of the
"developing" capitalist economies some are booming (e.g., South Korea, Tai-
wan), while many are stagnating; and in all cases there are substantial internal
regional differentials. In general, the dividing line between areas of prosperity
and areas of stagnation in the capitalist world is now as often to be found within
capitalist nations as between the advanced and the less developed nations. Apart
from growing regional differentials, inequalities by sex, race, and ethnicity have
tended to increase in most of the advanced capitalist nations as labor markets
have become increasingly polarized between good jobs and bad jobs, and as
previously secure and well-paid industrial working-class jobs have become
scarcer.

Economic growth under capitalist relations of production has always tended
to be highly uneven. Some regions do much better than others, depending on the
match between current patterns of demand and regional resource endowments;
regions that were initially advantaged tend to be able to build on those advan-
tages, while initially disadvantaged regions fall further behind, in a dynamic of
cumulative disequilibrium. Income distribution by class, race, and gender is
subject to the same kind of disqualifying forces: initial advantages and disadvan-
tages tend to cumulate over time as resources and opportunities flow dis-
proportionately to those already in the strongest economic position.

As in the case of environmental deterioration, however, there is good reason
to believe that in recent years the disqualifying tendencies of capitalist economic
growth have become especially pronounced. First of all, the increasing degree of
internationalization of the capitalist world economy has opened up much wider
channels for the flow of resources from disadvantaged to advantaged regions.
Under welfare state capitalism national governments had limited the disqualiz-
ing effects of unfettered capitalist economic activity by adopting policies de-
dsigned to redistribute income and opportunity to the less advantaged sectors of
the population, or at least to curb the gains flowing to the most advantaged. But
under global market capitalism both the willingness and the ability of national
governments to do so has been greatly diminished. These factors have combined
to make the 1980s—and in all likelihood the 1990s—a period in which the
naturally disqualizing tendencies of capitalist growth have been given unusually
free rein.

In addition to its disqualizing tendencies, capitalism has always been an
economic system in which considerations of security, stability, and community
are subordinated to considerations of competition, change, and mobility. The
history of capitalist development is marked by confrontation of the capitalist
logic of the free market, and its attendant process of creative destruction and
renewal, with popular demands for a more secure and fulfilling social and eco-
nomic environment. Indeed, the rise of the capitalist state as an economic actor,
culminating in the development of the welfare state, can be interpreted in consid-
erable part as a response to popular resistance to the unfettered operation of free
markets.

Once again, however, there is reason to believe that recent developments in
the capitalist world have led to the exacerbation of insecurity of a kind that has
long been characteristic of the capitalist growth process. The growth of interna-
tional economic integration and competition has made economic activity in any
given part of the world economic system much more vulnerable to developments elsewhere in the system. And the global market capitalism of the 1980s and 1990s has been characterized by a retreat from welfare state activities designed to promote economic security and community stability, and a consequent growth in the degree of insecurity and instability experienced by many people living within the capitalist countries. It is not unreasonable to attribute the recent growth of racism in the Western world, and the resurgence of neofascist political movements in countries like France and West Germany, to social tensions fostered by an economic system that no longer provides a modicum of stability and security to a large disadvantaged part of the population.

The deterioration of the natural and social environments of contemporary capitalist economies is clearly of major importance in any effort to examine the possibility of future structural crises. Yet these trends simply do not show up in the kind of aggregate macroeconomic indicators—such as the rate of output growth and the rate of profit—by which capitalist economic performance is conventionally measured.

The Increasing Irrelevance of Traditional Marxian Crisis Theory to Contemporary Capitalism

All of the variants of Marxian crisis theory discussed in section 1 share certain general features. First of all, they are concerned with conventional indicators of macroeconomic performance—such as the rate of growth of GNP, the rate of profit, the rate of capital accumulation, and the real wage rate. Even those Marxian ROCC theorists who work within the framework of the labor theory of value, utilizing value magnitudes such as the organic composition of capital and the rate of exploitation, are concerned to use their value analysis as a basis for explaining ultimately trends in the kinds of conventional macroeconomic indicators listed above.

Second, Marxian crisis theorists usually analyze aggregate macroeconomies—either national economies, or the capitalist sectors thereof, or entire sectors such as manufacturing. Finally, Marxian crisis theorists focus on quantitative (or at least quantifiable) macroeconomic variables, such as GNP, profit rates, distributive shares, capital stock, aggregate demand, capacity utilization rates, and so on. Even those Marxian CCP theorists who reason in terms of social and political factors affecting class conflict and power have sought to develop quantitative measures of the power wielded by different classes, in order to integrate this approach into quantitative analyses of the behavior of conventional performance indicators such as the profit rate and the accumulation rate (see, e.g., Bowles, Gordon, and Weisskopf 1986).

Thus it is fair to say that Marxian crisis theorists in general betray an economistic bias in their analysis. Theoretical models are formulated, and empirical analysis is carried out, in terms not too dissimilar from conventional macroeconomics. To be sure, Marxian crisis theorists pay much more attention than do orthodox macroeconomists to the profit rate as an object of analysis. Moreover, in seeking to explain the behavior of the profit rate, Marxian crisis theorists are much more likely to stress the role of class divisions (e.g., between capitalists and workers) in explaining patterns of consumption or the distribution of income. Some Marxian crisis theorists employ a value-theoretic framework foreign to orthodox macroeconomics; and those Marxian theorists concerned with class conflict and class power bring social and political elements into their analysis in a much more significant way than do conventional macroeconomists. But in the final analysis contemporary Marxist crisis theory presents itself as a somewhat backward branch of modern macroeconomics rather than as a distinctively different way of assessing and analyzing macroeconomic trends in capitalist economies.

These observations about the economistic bias of Marxian crisis theory do not necessarily invalidate it as a source of insight into the behavior of the advanced capitalist economies. Indeed, I believe that the CCP theory provides a persuasive analysis of the decline in profitability experienced by virtually all of the advanced capitalist economies in the late 1960s and/or early 1970s, and this is a critical part of the story of the most recent economic crisis. However, I believe that actual developments in the 1980s—and prospective developments in the 1990s—are rendering Marxian crisis theory in any variant increasingly irrelevant as a basis for analyzing future crisis tendencies in the advanced capitalist economies.

First, as I have noted already in section 2, it is no longer clear that these economies are in fact in the kind of structural economic crisis to which Marxian crisis theory has generally been applied. Conventional macroeconomic performance indicators paint a rather ambiguous picture in the late 1980s and early 1990s, with most advanced capitalist economies doing better than in the 1970s although nowhere near as well as in the 1960s. Almost all the capitalist economies show economic dynamism in some regions and sectors—along with continuing economic stagnation in other regions and sectors. Such mixed evidence can be used either to claim that the capitalist world is still in a major structural economic crisis, or that it has begun to emerge from the most recent such crisis.

Second, the specific kinds of problems on which Marxian crisis theories focus attention no longer appear to pose major obstacles to the maintenance of profitability or capital accumulation in the capitalist world. There is little evidence that the current pattern of technological change is unusually or excessively biased toward labor-saving, capital-using techniques of production in such a way as to exert downward pressure on the rate of profit (as per the ROCC variant). Nor is there much evidence that distributive shifts in favor of capital in the 1980s have caused significant problems of realization (as per the RF variant). Although world demand has yet to regain the buoyancy of the 1960s and early 1970s, some markets are experiencing boom conditions while others are slowly emerging from the doldrums of the early 1980s. It has become increasingly apparent that capitalism can thrive on markets catering to the rich and to the military, without
necessarily having to depend on the purchasing power of the masses. Finally, there is also little evidence that capitalists as a class have seen their profit shares or profit rates squeezed by the successful exercise of class power on the part of contending classes (as per the CCP variant). On the contrary, throughout most of the world capitalist system political developments in the 1980s have strengthened the power of capitalists relative to that of workers and other potential challengers.

In order to understand better the forces that might generate crisis conditions in the coming decades, we must be prepared to move beyond the conventional indicators of macroeconomic performance and the traditional variants of Marxian crisis theory.

The standard indicators of macroeconomic performance used by Marxist crisis theorists and conventional macrotheorists alike—rates of GNP growth, rates of capital accumulation, rates of profit, rates of real wage growth, and so on—have the virtue and the limitation that they are quantitative measures of economic activity associated with the production and consumption of goods and services. They fail to capture, however, the kind of qualitative elements of macroeconomic performance—in particular, changes in the quality of the natural environment and the quality of the social environment—which loom as increasingly important to the evolution of late twentieth-century capitalism.

**Potential Contradictions of the Deteriorating Natural Environment**

**The Depletion of Environmental Assets**

The evaluation of trends in the quality of the natural environment is important to an assessment of trends in the overall welfare of a society. An economy in which rapid growth in GNP is accompanied by rapid deterioration of the natural environment may not be performing as well as an economy in which GNP growth is much slower but whose natural environment is being maintained or enhanced. This suggests that conventional measures of aggregate economic welfare—such as the level of GNP in any given year—should be augmented by a commensurate estimate of the net change in the quality of the natural environment. The underlying principle is that measures of income or output should represent sustainable levels thereof—that is, levels of income or output generated by an economy after allowance has been made for the maintenance of the stock of (natural) "environmental assets" with which the economy began the year.7

This accounting principle is recognized in the case of physical capital assets: thus net national income/output is in principle a better measure of the current production of an economy than gross national income/output, because the former deducts from the latter an estimate of that part of current output that is needed to maintain the initial stock of capital assets. One should try to do the same with environmental assets, that is, deduct from measures of net national income/output an estimate of the amount of current output that would be necessary to maintain the quality of the natural environment at its beginning-of-the-year level. Societies that maintained their natural environment—either by pursuing development patterns that did not compromise its quality, or by undertaking activities designed to improve it—would be recognized as having performed correspondingly better, *ceteris paribus*, than societies whose development patterns put great stress on the environment and that did not undertake activities to offset this stress.

In practice, of course, it is extremely difficult to quantify changes in the quality of the natural environment. The quality of the natural environment depends on the cleanliness of air and water, and on the availability and quality of land, forests, animals, and mineral resources; more generally it depends on the maintenance of the earth’s ecological balance. It is enhanced by measures that reduce pollution and acid rain, that purify the water in lakes and rivers, that increase the availability of parks and outdoor recreational facilities, and that nourish agricultural land. It is reduced by depletion of the ozone layer, by the warming of the earth’s atmosphere, by the destruction of forests, by congestion of parks and wilderness areas and by the use of land as waste disposal sites.

Although it is currently still impossible to get even rough quantitative estimates of the net depletion of environmental assets in a given society, it is not so difficult to evaluate the general direction of change. The kind of evidence cited in section 2 leaves little doubt that in much of the capitalist world today (and no doubt in much of the noncapitalist world as well) the trend in the quality of the natural environment is downward. The last decade has witnessed increasing depletion of the atmospheric ozone layer, gradual warming of the earth’s temperature, increasing destruction of tropical rainforests, major oil spills, contaminated beaches, polluted harbors and acid-rain-impacted forests and lakes, the depletion of fossil fuel reserves, the loss of arable land and green belts to urban and industrial expansion and waste disposal sites.

All of these trends cast increasing doubt on the validity of conventional measures of macroeconomic performance as indicators of the true prosperity of contemporary economies, because—for the most part—the depletion of environmental assets is simply not registered in the form of lower output or productivity growth rates, or lower profit rates and real wage rates. But the problem is greater than the neglect of environmental asset depletion by conventional performance measures. More than that, economic activities undertaken to limit the extent of depletion of such assets are often treated just like productive activities that increase the final output of goods and services available to a society, rather than as "environmental maintenance activities" that make no net contribution to the society’s well-being.

Examples of environmental maintenance activities include the production and installation of pollution-control devices, the detoxification of rivers and lakes, the desalination and reforestation of land, and programs to protect wild life and
wilderness areas, all of which are designed to maintain the quality of the natural environment. Quite apart from the failure to take account of the depletion of societies’ environmental assets, the treatment of such environmental maintenance activities as final-output-producing activities leads to overestimation of the true rate of growth of real income/output and of the true rate of profit and real wage.

The growing pressure of the pattern of contemporary capitalist development on the quality of the natural environment can thus show up either in the form of deterioration in the quality of that environment, or in the form of an increasing amount of economic activity devoted to efforts to maintain that quality. The evidence from recent years suggests that both of these outcomes are generally observed: the natural environment has been deteriorating in the 1980s and 1990s, at the same time as environmental maintenance expenditures have risen to limit the rate of deterioration.

**Potential Contradictions**

However seriously the trends in environmental quality and in environmental maintenance expenditure noted above may be detracting from the overall performance of contemporary capitalist economies and the overall welfare of contemporary capitalist societies, it remains to analyze how and why such trends should generate major structural crises. I have already suggested that the relevant trends are not generally registered in the form of lower rates of growth of conventional macroeconomic performance indicators such as the level or rate of growth of GNP. Nor do they necessarily show up in the form of reduced profit rates or reduced accumulation rates; so there might not be any symptoms of structural crisis in terms of traditional Marxian crisis theory. How then might the deterioration of the natural environment be contradictory for capitalism, that is, how might it interfere with the normal functioning of a capitalist system in such a way as to threaten the continuing viability of the system? Several possible scenarios come to mind.

First, it is possible that growing pressures on the natural environment might reach a point at which the capacity of the natural environment to support continuing production might become severely impaired. For example, warming of the earth’s atmosphere might lead to climatic changes that would render a substantial amount of previously arable land unfit for further agricultural production; or depletion/exhaustion of a key mineral resource might make important lines of industrial production infeasible or prohibitively expensive. Such examples can be represented as cases of substantial technological regress: in an inversion of the usual pattern of technological progress, natural environmental conditions change in such a way as to reduce the real output that can be produced with given inputs of labor and capital.

Adjustment to technological regress would be difficult in any society. It is arguably especially difficult for a capitalist society because long-run growth of material production and consumption has traditionally been an especially important vehicle for managing the social and economic tensions that would otherwise arise from the uneven and unstable pattern of economic development so characteristic of capitalism. Without the lubrication of long-run material growth, the potential tensions could easily get out of hand.

A second possible contradiction scenario is one in which growing pressures on the natural environment are met by increasing expenditure on environmental maintenance activities designed to prevent an intolerable decline in the quality of the environment—for example, expenditure on land and forest replenishment and pollution control to limit the deterioration of the natural environment. Such expenditures would require that a growing proportion of the real output generated by productive economic activity be withdrawn from activities contributing to an enhancement of people’s welfare and directed instead to activities preventing a decline in their welfare. The true net output of the economy would grow more slowly, or possibly even decline, and the distribution of the burden of that decline would become a contentious issue.

Just as in the previous case of effective technological regress, one would expect tensions to escalate over the way in which the burden of slow or negative real economic growth would be shared among different segments of the society. For the reasons suggested above, such a burden of economic sacrifice would likely be especially difficult for a capitalist society to manage. Issues of relative power might well arise around the distribution of the burden, much as in the class conflict and power analysis of the CCP variant of Marxist crisis theory. However, the present context is fundamentally different in that the claim competing with that of the capitalist class emanates originally not from the efforts of any other class or group to improve their economic position, but from a decline in the availability of real economic benefits to be shared among the competing claimants.

Either of these first two scenarios would sooner or later turn into a crisis of accumulation recognizable to Marxian crisis theorists: for some of the burden of technological regress would be likely to fall eventually on profits, and, even failing this, the investment climate would surely deteriorate. But note that such a scenario would not conform to any one of the three major variants of Marxian crisis theory, for the crisis would not involve the pattern of technological change, the inadequacy of aggregate demand, or a decrease in the power of the capitalist class relative to that of other contending classes.

Instead, the underlying problem could be described as a secular increase in the “real cost of social reproduction,” resulting from the growing extent to which the carrying on of production and consumption activities draws on ultimately limited environmental resources (which should be accounted for at the effective cost of replacing them). It is not that some finite limit on the supply of any given resource may be reached at a certain time. It is rather that, as ever greater levels
of production, consumption, and waste disposal are carried out, more and more stress is put upon the available land, water, and air, and it becomes increasingly difficult to gain access to new supplies of resources.

A final possible contradiction scenario is one in which growing pressures on the natural environment do not lead to serious constraints on continued production or to any significant increase in the burden of environmental maintenance expenditures; instead, in this scenario, they are allowed simply to take their toll on the quality of the environment. Although measured rates of growth of GNP and real wages and rates of accumulation and profit would be unaffected, people would begin to perceive that their welfare was deteriorating in an important respect. The decline in the quality of the natural environment could lead to such a decline in the perceived welfare of major segments of the society that a crisis of accumulation but of the legitimacy of the existing economic system would develop. Reacting against the increasingly manifest inability of the existing system to provide for people's real needs—whatever the conventionally measured rate of growth of production and consumption—popular movements could conceivably arise to force a change to a new system less harmful to the quality of the natural environment.

This final scenario also involves an increasing real cost of social reproduction; but in this case the cost is borne not in the form of lower real incomes to some or all classes within the economic system, but in the form of a depletion of environmental assets (that would begin to impinge on real incomes in future years). Although the phrase "increasing real cost of social reproduction" is Marxian in terminology, my argument in this section of the paper is really more Ricardian than Marxian—Ricardian in its concern about the limits on economic activity imposed by an ultimately finite environment. 8

Potential Contradictions of the Deteriorating Social Environment

The Augmentation of Social Tensions

Many of the points made in the previous section with respect to the quality of the natural environment apply in principle also to the quality of the social environment. Just as one should take into account changes in the natural environment in assessing a society's overall macroeconomic performance, so one would like to consider changes in the social environment in evaluating overall welfare. 9

In practice, however, the quality of the social environment is even more difficult to conceptualize and even less quantifiable than the quality of the natural environment. The social environment is enhanced by the extent to which people feel secure in their homes, their neighborhoods, and their communities; by the amount of stability in their lives; and by the degree of peace and harmony in which they are able to live with and relate to one another. It is reduced by crime, strife, instability, war, and other such forms of social pathology affecting individuals, communities, and nations.

It would probably stretch the imagination too far to conceive of social environmental assets (peace? harmony?) that could be depleted like natural environmental assets. A preferable alternative may be to think of deterioration of the social environment in terms of the augmentation of social tensions. Societies whose pattern of development serves to reduce (or at least maintain) the current level of social tensions should be recognized as having performed correspondingly better, ceteris paribus, than societies whose pattern of development exacerbates social tensions.

Even in the absence of comprehensive quantitative indicators of trends in the extent of social tensions in the advanced capitalist countries, it is not difficult to evaluate the general direction of change in recent years. The kind of evidence cited in section 2 points to deterioration in the quality of the social as well as the natural environment. The 1980s and early 1990s have been characterized by growing inequalities of all kinds, as well as growing insecurity for large numbers of people. Most of the advanced capitalist world has experienced an increasing incidence of drug use and drug-related crime, heightened racial and ethnic tensions, and a declining sense of social and community responsibility.

These kinds of negative developments are of course not reflected in conventional macroeconomic performance indicators (except possibly the rate of unemployment, with which many indicators of social pathology are correlated). Yet, as in the case of the natural environment, the scope of the problem of a deteriorating social environment is understated by the extent to which social tensions have actually increased. This is because economic activities undertaken to limit or counteract the augmentation of social tensions are generally treated in the national accounts like final-output-producing activities, rather than as "social maintenance activities" that make no net contribution to society's well-being. Examples of social maintenance activities include the provision of police and security services, the operation of the judicial system, the building and operation of prisons, drug control programs and other public health activities, all of which are designed to maintain the quality of the social environment.

The increasingly adverse impact of the pattern of contemporary capitalist development on the quality of the social environment can thus show up either in the form of an augmentation of social tensions, or in the form of an increasing amount of economic activity devoted to efforts to contain those tensions. The evidence from recent years suggests that both of these outcomes are generally observed: the social environment has been deteriorating at the same time as social maintenance expenditures have risen to limit or counteract that deterioration.

Potential Contradictions

The more complex and interrelated the social and economic system becomes, the more stress is put on social relations among people and the greater the difficulty of maintaining the social environment. This trend is surely intensified by market-
oriented forms of capitalism, as compared with welfare-state systems. But deterioration of the social environment need not necessarily prove contradictory for a capitalist society—particularly if it is occurring in the context of relatively good economic performance by conventional criteria. Indeed, the experience of countries like the United States and the United Kingdom in the last decade seems to suggest that capitalism (in its global market form) can thrive in spite of a very considerable augmentation of social tensions. There is reason to believe, however, that a continuing deterioration in the social environment will ultimately impair the process of capitalist development.

How might the deterioration of the social environment interfere with the normal functioning of a capitalist system in such a way as to threaten its continuing viability? Unlike the case of the natural environment, it does not seem possible that changes in the social environment could generate the equivalent of substantial technical regress. But each of the remaining two contradiction scenarios envisaged as a possible consequence of depletion of environmental assets has its counterpart in a scenario that could arise from growing social tensions.

Growing pressures on the social environment might well be met by increasing expenditure on social maintenance activities designed to prevent or counteract an intolerable augmentation of social tensions. For example, a surge in the incidence of crime might elicit major new expenditures on crime prevention, or the burgeoning of a poverty-related disease (such as AIDS) might require major new expenditures on public health programs. To finance such expenditures a growing proportion of the real output generated by productive economic activity would have to be withdrawn from activities contributing to an enhancement of people’s welfare and directed instead to activities preventing a decline in their welfare. The true net output of the economy would grow more slowly, and the distribution of the burden of that decline would become a contentious issue.

In the other possible contradiction scenario, growing pressures on the social environment would not lead to any significant increase in the burden of social maintenance expenditures; instead, they would simply take their toll on the quality of the social environment. Although quantitative macroeconomic performance indicators would not necessarily be affected, people would surely perceive that their welfare was deteriorating in an important respect. The augmentation of social tensions could conceivably lead to such a decline in the perceived welfare of major segments of the society that a crisis of legitimacy of the existing economic system would develop.

Neither of these two contradiction scenarios would conform to any of the three major variants of Marxist crisis theory. Instead, the underlying problem could again be described as a secular increase in the real cost of social reproduction, referring in this case to the growing extent to which production and consumption activities generate social tensions. Whether the increase in social tensions is contained by social maintenance expenditures, or is allowed to proceed unchecked, it amounts to a real social loss and thus a “real cost of social reproduction.” Here the Marxist phrase reflects an argument that is fundamentally Polanyian in its concern about the destructive social consequences of an unfettered market system.10

Toward a Crisis of Late Twentieth-Century Capitalism?

In analyzing the crisis tendencies of capitalism there is a natural tendency on the part of Marxist scholars to conflate normative critique of the capitalist system with positive analysis of capitalist contradictions. As a normative matter we deplore the deterioration of the natural environment and the poisoning of the social environment that accompanies the spread of global market capitalism. In our positive analysis we look for potential contradictions in such developments that could enhance the potential for transforming global market capitalism into a more rational and humane system.

It is tempting to assume that increasing irrationality (as in contemporary capitalist treatment of the natural environment) and increasing inhumanity (as in contemporary capitalist treatment of the social environment) will necessarily generate contradictions that render the system not only irrational and inhumane but also unviolate. This is most likely to be the case if the potential contradictions impinge directly upon the process of capital accumulation—by causing the profit rate to fall and/or the investment climate to deteriorate to the point where a full-fledged crisis of accumulation is at hand. Such a consequence is envisaged in the first two contradiction scenarios involving the deterioration of the natural environment (in which the capacity of the natural environment to support production is impaired, and in which increasing environmental maintenance expenditures are undertaken) and in the first contradiction involving the deterioration of the social environment (in which increasing social maintenance expenditures are undertaken).

Yet if the potential contradictions do not impinge directly upon the accumulation process—as under the contradiction scenarios in which the natural or social environment is simply allowed to continue to deteriorate, without any expensive remedial action—then they may not render the capitalist system unviolate. I have suggested that under these conditions a legitimacy crisis, rather than an accumulation crisis, may arise. But it is by no means clear that the tensions generated by a deteriorating natural or social environment would necessarily cause a legitimacy crisis of a magnitude that would really threaten the viability of the system.

In the case of an accumulation crisis the economic structure of the capitalist system is directly affected; in the case of a legitimacy crisis it is the political structure of the system that is directly affected. A capitalist society could be rendered unviolate because of tensions generated in its political structure; but it must be rendered unviolate if its economic structure is no longer capable of sustaining a positive rate of profit or a positive rate of accumulation. Thus an accumulation crisis is more certainly threatening to a capitalist society than a legitimacy crisis.
To be sure, pressure on the political structure arising from a legitimacy crisis could be translated into pressure on the economic structure. It would be if the political tensions had the consequence of seriously impairing the investment climate. And it might be if the political authorities were ultimately obliged to undertake environmental or social maintenance activities to stem the deterioration of the natural or social environment, and if a significant part of these maintenance expenditures were financed at the expense of profits. In either of these two cases, what began as a legitimacy crisis could end up becoming an accumulation crisis. Nonetheless, contradiction scenarios that lead initially to a legitimacy rather than an accumulation crisis appear somewhat less likely to threaten the viability of a capitalist system.

From this perspective it would appear that the deterioration of the natural environment poses a greater threat to the viability of contemporary global market capitalism than the augmentation of social tensions. For, as the Thatcher-Major and Reagan-Bush experiences have demonstrated so clearly, social tensions can be allowed to grow to a very considerable extent without necessarily undermining the perceived legitimacy of the capitalist system and the political strength of its strongest supporters and ideologues. But it is not at all so clear that environmental deterioration can be allowed to continue without generating insoluble political and economic problems for capitalism.

What would it take to prevent or overcome a crisis of the natural and/or the social environment? Now that it has become clear that in centrally administered socialist societies there was a deterioration in the natural and social environments at least as serious as those being generated under global market capitalism, one must address the question of whether there is any reason to expect that some form of socialism would be more capable of dealing with the potential problems that I have suggested will threaten the viability of capitalism. I believe the answer is definitely yes; but the case for this answer is necessarily rather general and abstract, for the requisite socialist alternative would have to be very different from the type of socialist societies that the world has known to date.

To restrain and ultimately reverse the ongoing deterioration of the natural environment it will be necessary to develop methods of coordinating the management of environmental assets in an ecologically sound manner. Some improvement could be expected from ecologically judicious state intervention into markets involving natural resource use and waste product disposal, so that negative externalities arising from the use of depleting assets and the abuse of the environment are internalized (requiring resource users and polluters to bear the true social costs of their activities). But the problem goes much deeper than this. To stem the powerful forces generating the deterioration of the natural environment it will be essential to reshape the whole contemporary pattern of production and consumption in such a way as to promote resource-nurturing rather than resource-wasting activities.

To reverse the current deterioration of the social environment—the increasing inequality, insecurity, and instability associated with contemporary capitalism—it will be necessary to develop the capacity to impose politically determined social priorities on the market system, rather than letting unregulated markets govern the larger system. Some progress could undoubtedly be made by restoring and strengthening the kind of government welfare-state provisions that in the first few decades after World War II protected many individuals, groups, and communities from the worst ravages of the unfettered market. But the traditional means of rendering capitalist societies more humane are not likely to be sufficient to overcome the powerful global market forces that are currently shaping the social environment. Greater egalitarianism, community, and stability can only be achieved and preserved if the scope for play of the individualistic and competitive logic of the market is restricted and replaced in some important spheres by social and cooperative methods of decision making and resource allocation.

It is possible that a comprehensive structural reform of the global market capitalist system, with a view to guiding the market and intervening to counteract its most damaging effects, could succeed in significantly slowing the deterioration of both the natural and social environments while maintaining the capitalist foundations of the system. Such structural reform, to be successful, would surely have to be at least on the scale of the kind of political and economic restructuring of capitalism that has hitherto been possible only in the wake of a generalized economic crisis (e.g., the establishment of welfare-state capitalism following the devastation of the Great Depression).

To bring about a significant improvement in the natural and social environments, however, the socioeconomic system would have to be restructured to the point where its fundamental logic was transformed. The systemic need for continual growth in the production and consumption of material goods and services would have to be replaced by a systemic emphasis on redistribution and conservation. The sovereignty of the individual would have to yield much ground to the interests of the community, and effective mechanisms for making collective decisions democratically would need to be developed as viable alternatives to individual choice.

In short, many of the democratic and egalitarian ideals of socialism would have to be put into practice—as they have not been heretofore. But where Marx originally saw socialism as a system that would arise from the contradictions of a capitalist system that had produced the foundations for material abundance, it now appears that socialism will most likely be needed to overcome the contradictions of a capitalist system that is increasingly undermining those foundations.

Notes

1. Under the general heading of "Marxian crisis theory" I include the kind of crisis theories in the Marxian tradition that have received the most attention in the literature and
that have been most often applied to explain concrete periods of capitalist economic crisis. I recognize that Marx's work on accumulation and crisis has been and may be interpreted in many different ways; my brief survey is intended not to be exhaustive but to focus on the most prominent interpretations of Marxsian crisis theory.

2. A somewhat different kind of theory in which a rising organic composition of capital is associated with a falling rate of profit has been developed by Moseley (1987), who emphasizes the Marxsian distinction between productive and unproductive labor.

3. David Gordon (1988) has argued forcefully to the contrary that "recent changes in the global economy [amount to] the decay of the older order and not yet the inauguration of a new [order]." (p. 25). The wealth of statistical information on which Gordon bases his conclusion, however, extends only through the year 1984; I believe that subsequent developments justify my own conclusion.

4. The performance trends cited in the following paragraphs are based on standard national macroeconomic statistics compiled by the Organisation for Economic Cooperation and Development (OECD) and the U.S. Bureau of Labor Statistics (BLS).

5. The U.S. economy entered into a cyclical recession in mid 1990, and most of the capitalist economies have displayed sluggish growth at best in recent years; but this performance hardly amounts to a major downturn or a generalized economic crisis.

6. In a stimulating earlier critique of theories of capitalist crisis, John Willoughby (1989) has argued not only that global capitalism is not currently in crisis but that even the 1970s and the early 1980s did not constitute a period of generalized capitalist crisis.

7. The need to systematically incorporate trends in the quality of the national environment into national income and product accounts has been recognized in a recently growing literature on integrated environmental and economic accounting; see, inter alia, Bartelmus (1987); Repetto et al. (1989); and Ahmad, El Serafy, and Lutz (1989).

8. Although Marxsian crisis theory has not traditionally addressed concerns of environmental sustainability, Marxist theory in its broader dimensions may have much to contribute to the analysis of an ecologically finite world. For a persuasive argument to this effect, see Raskin and Bernow (1991).

9. Unlike the case of the natural environment, I am aware of no systematic effort to incorporate trends in the social environment into a national income accounting framework.

10. In a very interesting article that has stimulated my own thinking along these lines, Bienefeld (1989) draws attention to the way in which recent trends in world capitalism amount to "unlearning the lessons of history" drawn by Karl Polanyi—in particular, the lesson that a socioeconomic order in which the self-regulating market serves as the basic organizing principle cannot possibly be stable and viable in the long run.

References


