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ROSA LUXEMBURG:

THEORY OF ACCUMULATION AND IMPERIALISM

Tadeusz Kowalik



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Rosa Luxemburg

Theory of Accumulation and Imperialism

Tadeusz Kowalik

Translated and edited by

Jan Toporowski

and

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Translators' Note

In the original Polish edition, the chapters were numbered from 1 to 5 in Part I and again from 1 to 5 in Part II, with the two Appendices standing unnumbered in between the two parts. To avoid confusion, in this edition, the chapters of this book are numbered consecutively.

Wherever possible, references and quotations have been changed to follow English editions of the original. However, in the original Polish, numerous references are made to political and economic institutions, circumstances, publications and authors that would have been familiar to the Polish readership of this book at the time, but that would require additional explanation for an English reader in the twenty-first century. Where necessary, additional explanations are introduced into the text and footnotes and are indicated by square brackets.

Preface

Jan Toporowski

Rosa Luxemburg and Tadeusz Kowalik

This English language edition of Tadeusz Kowalik's *Róża Luksemburg Teoria Akumulacji i Imperializmu* places before the reader the most important monograph devoted to that neglected masterpiece in twentieth-century political economy, Rosa Luxemburg's *The Accumulation of Capital*. In this book, Tadeusz Kowalik explains Rosa Luxemburg's attempt to correct Marx's analysis of capitalist reproduction. But the book goes far beyond an exposition of Rosa Luxemburg's theory. In dealing with the criticisms that Rosa Luxemburg's work aroused, and with the many weaknesses in her argument, Tadeusz Kowalik demonstrates in her analysis the link between Marx's schemes of capitalist reproduction (in Volume II of *Capital*) and mid-twentieth-century macroeconomics. His book therefore puts forward Rosa Luxemburg's major theoretical work as the foundation for a critique of twentieth-century political economy.

Rosa Luxemburg was born 5 March 1871 into the family of a Jewish timber merchant in Zamość in the south-eastern part of what was known as Congress Poland, having been placed within the Russian Empire at the Congress of Vienna in 1815. Two years later the family moved to Warsaw, where she became active in left-wing politics while still at school. She joined a group called *Proletariat* in 1886 and, after completing her school education, fled arrest to study in Switzerland at the University of Zurich. In 1897 she was awarded the degree of Doctor of Law for a dissertation titled *The Industrial Development of Poland*. Although she settled eventually in Germany, she remained active in Polish left-wing politics. In 1893, together with Leo Jogiches, she founded the Social Democratic Party of the Kingdom of Poland and Lithuania (*Socjaldemokracja Królestwa Polski i Litwy*) advocating socialist revolution in Poland, and opposing attempts to foster national self-determination before the achievement of socialism. After the 1905 Revolution she was active too in the Russian Social Democratic Party, now led by Lenin.

As Tadeusz Kowalik's book relates, it was while lecturing on political economy at the German Social Democrats' Party school that Rosa

Luxemburg first realized that there was something wrong with the way in which Marx resolved the problem of how profits are realized as money (as opposed to surplus commodities). The result was her book *The Accumulation of Capital*, in which she identified the key flaw in the standard interpretation of Marx that seeks to derive the characteristics of capitalism from exploitation. Luxemburg tried to show that it cannot explain the monetization of profits. She came to the conclusion that the conversion of surplus value into money can only be achieved by finding external markets for capitalism or by armaments. The search for external markets and militarism together lead to imperialism.

As Tadeusz Kowalik shows in this book, this attempt was not altogether successful or consistent. However, it was the first crack in the then standard under-consumptionist interpretation of Marx, the notion that capitalist depression and crisis arises because the worker is not paid the full value of his or her labour. This interpretation reached its apogee in Paul Sweezy's widely respected *The Theory of Capitalist Development*, published in 1942, but seems to revive every time capitalist countries fall into depression, for example in the 1970s,¹ or in the more recent preoccupation with the 'wage share' among radical economists.² Although Luxemburg was widely regarded as an under-consumptionist (indeed, Sweezy memorably referred to her as 'the queen of under-consumptionists')³ Tadeusz Kowalik's book presents a much more complex analysis, based on the theory of his second mentor, Michał Kalecki (1899–1970), whose business cycle analysis ironed out the inconsistencies in Luxemburg's theory.⁴

Tadeusz Kowalik (1926–2012) is perhaps best known outside Poland as the last surviving co-author of Kalecki, an advisor to the Polish trades union movement *Solidarity* during the 1980s, when it played a key part in bringing down the Communist Government in Poland, and subsequently as a fierce critic of the capitalism established in his country. He was born 19 November 1926 in the village of Kajetanówka outside the city of Lublin in Eastern Poland, traditionally the poorer, more backward part of the country. His father was a storeman. The young Kowalik was radicalized by the experience of pre-War economic backwardness under Poland's semi-fascist government of the time, and then by resistance to the Nazis. In 1948 he became a member of the Polish Workers Party shortly before it amalgamated with the Polish Socialist Party to form the Polish United Workers' Party. In 1951 Kowalik completed his undergraduate studies in law at Warsaw University and went on to write a doctoral thesis on the work of the pioneering Polish Marxist sociologist and economist Ludwik Krzywicki (1859–1941) under the supervision

of Poland's other great luminary of economics Oskar Lange (1904–65). On completion of his doctorate, Tadeusz Kowalik commenced work on his *habilitacja*, the post-doctoral thesis on which Polish academics are examined before they can secure academic advancement. His thesis was on the economic theories of Rosa Luxemburg. He had already taken over from Lange the teaching of the political economy course at the Party school. Traces of those lectures may be found in this book. The thesis was passed in 1963. Various articles from it were published, including in the *festschrift* for Kalecki.⁵

During the 1960s, Kowalik worked with Kalecki in criticizing errors in the economic policy and planning of the Polish government, and with the philosopher Leszek Kołakowski and the economist Włodzimierz Brus, who were using their party positions to protect dissidents within and outside the ruling party. For his dissent, in 1968, Kowalik was expelled from the party in a purge directed against Polish Jews (such as Brus and Kalecki) and 'revisionists'.

Kowalik was fortunate that, by then, he was working for the Polish Academy of Sciences, a politically autonomous body, on a project to publish the collected works of Oskar Lange, extended after 1970 to include editing the collected works of Kalecki. Although Polish publishers would not publish his works, his book on Rosa Luxemburg was finally published in an obscure Polish edition in 1971. During the 1970s translations of the book were published in Italy and Mexico. But this is the first English translation of the book.

Tadeusz Kowalik's Critique of Political Economy

This book was Tadeusz Kowalik's master-work. In it, under the influence of Oskar Lange rather than Michał Kalecki, he tried to reconstruct the political economy of the first half of the twentieth century, a task that Karl Marx set out to achieve for mid-nineteenth century political economy and never completed. To understand the true significance of Tadeusz Kowalik's achievement in this book, it is necessary to understand the circumstances under which the book arose and (as in Marx) the political economy of his time. There is, of course, an intellectual background to the book that reaches back to Marx. But the political conditions that give significance to the book start in 1938, with the dissolution by the Communist International of the Polish Communist Party, the KPP on grounds that the Party had fallen too much under the influence of Rosa Luxemburg and Leon Trotsky.⁶ Following its dissolution, those leaders of the KPP who were in Moscow, or followed the

Comintern's instructions to go to Moscow, were purged and executed. The brutality of the suppression of the Polish Communists is poignantly described in Natalia Gąsiorowska's biography of Maria Koszutska, one of the KPP leaders, who was executed sometime in 1939.⁷

In 1956, following Nikita Khrushchev's speech to the Twentieth Congress of the Communist Party of the Soviet Union, in which Stalin's crimes were denounced, the KPP and its leadership, along with Rosa Luxemburg, were posthumously rehabilitated. As criticism of authoritarian Stalinist rule became more common, it spread into open discussion of alternative ideas not only about socialism, but also about capitalism. In 1956 too, the first Polish edition of John Maynard Keynes' *General Theory of Employment, Interest and Money*, partly translated by Michał Kalecki, was published. Its publication was quickly followed by translations into Polish of key works of other Western economists, including the neo-classical Paul Samuelson, as well as left-leaning political economists such as Maurice Dobb, Joan Robinson, and the book that set out the under-consumptionist interpretation of Karl Marx and Rosa Luxemburg, Paul Sweezy's *Theory of Capitalist Development*.

In 1963, the first post-War Polish edition of Rosa Luxemburg's *The Accumulation of Capital* appeared.⁸ In that same year, Tadeusz Kowalik completed the *habilitacyjna* thesis that was to become *Róża Luksemburg Teoria Akumulacji i Imperializmu*. The book is a guide to Rosa Luxemburg's great work, as well as explaining the background to it in the debates about the future possibilities of capitalism in Russia, between Narodniks and the 'Legal Marxists', of whom the most important was Mikhail Tugan-Baranovsky. But, in the course of writing the book Tadeusz Kowalik brought into his analysis the key figures of mid-twentieth-century political economy, in a strikingly original way. Not only does the structure of that political economy become clearer, it is also integrated around the central questions in Rosa Luxemburg's analysis of capitalist accumulation.

The starting point is the Russian Narodniks' explanations why, in their view, capitalism could not develop in Russia because of the limited markets that the country offered at the end of the nineteenth century. This led to Tugan-Baranovsky's response: his famous rejection of the under-consumptionist argument on the grounds that capitalism can continue producing machines for the sake of production irrespective of the state of consumer demand. But there was much more to Tugan-Baranovsky's analysis than just his observation that capitalism can stabilize itself by producing more means of production. Almost by stealth, Tugan-Baranowski became a central and deeply ambiguous figure in twentieth-century political economy. This was not for his solution of an

abstract problem of capitalist accumulation, but for his study of English banking crises.⁹ Despite the fact that this study was never translated into English, Tugan-Baranovsky's study became a key text on the business cycle and was an important influence on British exponents of the monetary business cycle, among them John Maynard Keynes and Denis Robertson.¹⁰

Tadeusz Kowalik therefore found the roots of twentieth-century political economy in the discussions of Marx's schemes of capitalist reproduction in volumes two and three of *Capital*. With Marx's critique of Say's Law it becomes apparent that capitalist reproduction or growth cannot take place in a way that is stable or crisis-free. The question of external markets then opens the door for Keynesian political economy, constructed around the demand deficiency and the state as an external market.

For Tadeusz Kowalik, the central figure through whose work all these very different writers are connected is Michał Kalecki. In his *Essays in the Theory of Economic Fluctuations*, published on the eve of the Second World War, Kalecki had expressed the connection as follows: Rosa Luxemburg's '... theory cannot be accepted as a whole, but the necessity of covering the "gap of saving" by home investment or exports was outlined by her perhaps more clearly than anywhere else before the publication of Mr. Keynes's *General Theory*'.¹¹ In the book that follows Tadeusz Kowalik challenged the under-consumptionist interpretation of Luxemburg's theory and identified himself with Kalecki's interpretation that under-investment is the key problem of modern capitalism.

Inspired by his discussions with Tadeusz Kowalik, Kalecki was to develop this point further in his 1967 paper on Rosa Luxemburg and Tugan-Baranovsky. Tadeusz Kowalik worked with Kalecki on Kalecki's last paper on the 'Crucial Reform' of capitalism, which places the 'Keynesian Revolution' in the context of those debates around capitalist reproduction that Tadeusz Kowalik describes in this book.¹² Throughout his academic career, Tadeusz Kowalik kept coming back to Kalecki's pioneering work in twentieth-century macroeconomics, and the foundations of that work in the analysis of capitalist production as a whole, that is found in the controversies around Rosa Luxemburg's *Accumulation of Capital*. Most important of all, it is through the business cycle theory of Kalecki that Keynesian ideas are linked to those late-nineteenth century debates on capitalist reproduction. This is obvious in the Kalecki biographical essay written soon after Tadeusz Kowalik received his *habilitacja*, through to Kowalik's last essays on Rosa Luxemburg.¹³ Some idea of the influence of Michał Kalecki on Tadeusz Kowalik's thinking

on Rosa Luxemburg is provided by the paper which Kowalik contributed to the Kalecki festschrift, entitled 'R. Luxemburg's Theory of Accumulation and Imperialism (An Attempted Interpretation)'. Tadeusz Kowalik refers to this paper in this book as containing the essential conclusions of his *habilitacja* thesis (see below Introduction, note 17). But in the earlier paper, Tadeusz Kowalik merely states that Kalecki resolved the problems in Rosa Luxemburg's analysis and the paper itself makes much more of Oskar Lange's criticisms of Luxemburg's theory. By the time that Tadeusz Kowalik's book came out, in 1971, Kalecki had been given a much more central role as the link between the Marxian political economy of Luxemburg, Tugan-Baranovsky, Hilferding and so on, and mid-twentieth-century Keynesian political economy, and Lange himself is reduced to expressing his view that realization problems are purely monetary phenomena (see below Chapter 4, note 15). A full list of Tadeusz Kowalik's publications is given at the end of R. Bellofiore, E. Karwowski and J. Toporowski (eds) *The Legacy of Rosa Luxemburg, Oskar Lange and Michał Kalecki Volume 1 of Essays in Honour of Tadeusz Kowalik* (Basingstoke: Palgrave Macmillan 2014).

However, Tadeusz Kowalik's reconstruction of capitalist political economy around the Marxian schemes of reproduction led him, in the second part of this book, to reject the idea that Kalecki was a 'precursor' of Keynes. Rather, Keynes saw in an imperfect way what Kalecki realized much more clearly on the basis of the Marxist discussions around the work of Rosa Luxemburg.

Final thoughts on Luxemburg

This book cannot be thought of as Tadeusz Kowalik's final word on the subject of Rosa Luxemburg and the controversies that her work aroused. He planned a new introduction to a new Polish edition of this book in the 1990s. But no trace of this new introduction has been found and the book was not republished until 2012, after Tadeusz Kowalik had died. He had requested the author of this Preface to write a new introduction to the second Polish edition and this new introduction has been incorporated into this Preface.

In at least one respect, Tadeusz Kowalik might have revised his book. In 1966, Paul Baran and Paul Sweezy published their book *Monopoly Capital: An Essay on the Economic and Social Order*. The book marked a shift away from the under-consumptionism of Sweezy's 1942 book, and recognized the key role of business investment and government expenditure in the realization of profit along lines similar to those

originally put forward by Kalecki.¹⁴ A Polish translation appeared soon after the book was published and would have been available to Tadeusz Kowalik well before his book on Rosa Luxemburg came out in 1971. However, Kowalik did not note this change in Sweezy's view in the version of Kowalik's book that came out in 1971 and which was being prepared for publication in Poland as Tadeusz Kowalik died. In fairness to Sweezy this is now pointed out here.

Tadeusz Kowalik was unaware at the time he wrote this book that important financial and monetary aspects of the analyses of Tugan-Baranovsky and Rosa Luxemburg also look forward to the work of an American student of Oskar Lange, that critic of late twentieth-century finance capitalism, Hyman Minsky. As Tadeusz Kowalik shows in his book, Tugan-Baranovsky put forward pro-cyclical shifts in bank liquidity as a cause of financial crisis and instability. In the case of Rosa Luxemburg, her analysis of the role of international banks in creating markets for the export of capital leading to debt crises in what we would now call emerging market countries foreshadows the international debt crises since the 1980s.¹⁵ Minsky himself, when trying to understand value relations in a capitalist economy, laid out, in his *Stabilizing an Unstable Economy*, a two-sector model of capitalist production that is, in its essentials, the same as the system of capitalist reproduction put forward in Volume II of Marx's *Capital*.¹⁶ That same system was the analytical foundation of the work of Tugan-Baranovsky and Rosa Luxemburg.

The text published here is therefore Tadeusz Kowalik's 1971 edition with, wherever possible, references and quotations using English editions. It is presented by its translators in the belief that the book will establish its author's position as one of the great political economists of the twentieth century, alongside his heroes, Oskar Lange, Michał Kalecki and, of course, Rosa Luxemburg.

The foregoing observations on the work of Tadeusz Kowalik would not have been possible without the generosity of his discussions with the author of this Preface. Thanks are also extended to Annina Kaltenbrunner, Riccardo Bellofiore, Kazimierz Łaski, Przemysław Wielgosz and John King for their comments. The author of this Preface takes sole responsibility for any remaining failure to do justice to the ideas of Tadeusz Kowalik.

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Introduction

The subject of this study is Rosa Luxemburg's contribution to economic theory. It arose out of materials gathered for a broader monograph, on the economic views of the Polish-German socialist, that was abandoned by the author. Such a narrowing of the subject-matter may nevertheless have some practical advantages. At a certain stage of research, one of the fundamental duties of the historian of science should be to separate out those works and ideas that are seeking to resolve in an independent way some technical problem, from the works that are derivative, because they are publicizing ideas or entering into polemics. This procedure may also facilitate a change in attitudes towards Rosa Luxemburg among her resolute and diehard opponents. Such attitudes can be illustrated by the story of a certain scholar, with significant achievements in economic theory and the popularization of Marx's theory in Poland, who once remarked 'Eliminate Rosa Luxemburg, eliminate her ideas at every step.' This is a measure of the antipathy that has been aroused by this author, entangled, as rarely anyone has been, in violent political and ideological disputes. In these matters her opponents will probably never change their established views. However, it is possible to undermine these opinions on the basis of the development of science, in particular that part of it that has been verified in real life. In this part may certainly be found the principle of effective demand, which has been widely recognized today in Marxist political economy as well as in bourgeois economics. Over thirty years of counter-cyclical full employment policy is based on this principle.

The boundary between popularizing and original creative ambition in economics is unusually well marked out in the work of Rosa Luxemburg and can be specified in time. As late as January 1912, preparing a more popular lecture in political economy, the follower of Karl Marx was

convinced that political economy had reached 'its summit and its limits' in his theory and could only therefore be developed by his successors 'in its details'. It was then, as she tried to present Marx's theory in the most convincing way possible, that, completely unexpectedly, she came up against a weighty problem which prompted her to abandon work on her introduction to his theory and to write instead the work that was supposed to resolve this problem, partly in polemics with Marx. The outcome was *The Accumulation of Capital*,¹ which introduced its author into the history of economics as one of the most outstanding theorists of the twentieth century. Without this study, the earlier works of Rosa Luxemburg would be of interest mainly, if not solely, as an expression of one of the more important social currents of two European countries.

The subject of this study is therefore one work by Rosa Luxemburg. The essential subject-matter is the dependence of capital accumulation on effective demand (on demand in markets), the dependence of economic growth on specific capitalist barriers to growth. In the older literature, this subject was presented as a problem of markets for expanded reproduction in capitalism or, in short, as a problem of realization. As in Rosa Luxemburg's work, and in keeping with the implication of its subtitle ('A Contribution to the Economic Explanation of Imperialism'),² the second part of this book is devoted to the relationship between capital accumulation (realization) and economic and political imperialism.

The main problem to which this book is dedicated can be expressed in a language that is comprehensible not only to professional economists. The idea of a so-called Keynesian revolution can frequently be found in economic and social literature. Essentially John Maynard Keynes showed in his book, published in 1936,³ that a (developed) capitalist economy, left to its own devices, cannot secure the full employment of factors of production, especially the labour force. To obtain full employment government intervention is necessary in order to arouse the inclination of capitalists to increase production or to supplement private investment with public investment. The purpose of state intervention comes down to creating additional demand (leaving aside the manipulation of the level of the rate of interest and its effects on investment activity) through (a) financing investment (or consumption) by means of a fiscal deficit or (with somewhat different effects) through taxing capitalists' profits, or (b) securing a surplus of export over imports.

In the context of our discussion, the principles of the new economics associated with Keynes have become part of contemporary economics. Those principles have been accepted at least in the sense that the advocates of capitalism as well as its socialist critics acknowledge that

the current high level of activity in the capitalist world⁴ is due to economic policies motivated by the Keynes doctrine. Apart from a very narrow group of economists still wedded to extreme economic liberalism, who are on the whole valued for their character rather than their understanding of contemporary reality, it is now commonly understood that, by creating additional demand, the capitalist state can (and must) influence economic growth in capitalism. From a theoretical point of view this meant an understanding that inadequate demand (a lack of markets) is a serious problem for capitalism, a bottle-neck or a barrier to growth. Obviously acknowledgement of this fact does not decide the social attitude towards capitalism. In this regard, in the last couple of decades⁵ three basic positions may be discerned:

1. The right Keynesians have in practice committed themselves to armaments as the main form in which additional demand is created.
2. The left Keynesians who demand economic stimulus through the most socially useful investment (education, culture, health) and reduction in income differentials, mainly through taxation.
3. The socialist critique (from communists and left socialists) has argued that stimulating economic growth through expanding the armaments sector is an important reason for overthrowing capitalism. The policies of the left Keynesians can only be of limited effectiveness and, without radical change in the system, can always be rendered ineffective.

During the last ten years, the first two positions have been less distinct, as Western economists have become accustomed to the strong economic conjuncture, treating it as self-explanatory rather than the result of state intervention. Nevertheless it is possible to distinguish the two positions on the basis of their attitude to war and peace. Moreover the positions revive in their original forms as soon as the more obvious signs of economic recession start to emerge.

As a result of these changes in economic activity and in economic theory, many economists from the past, who had raised the question of markets for output, insufficient demand, or inadequate consumption (namely the proponents of under-consumption theory), were rehabilitated. Keynes himself contributed to this by referring to the ideas of two English theorists, Thomas Malthus among economists of former times, and J.A. Hobson among the more contemporary.

A similar process of rehabilitation occurred in the Marxist tradition. As Keynes rehabilitated J.A. Hobson, Michał Kalecki did so for Rosa

Luxemburg. Already before the Second World War, Kalecki wrote that, although the equation of investment with saving is implicit in the Marxian schemes of reproduction, Marx was not interested in what happens if investment is insufficient to secure dynamic equilibrium, and hence he (Marx) did not realize the key significance of investment expenditure in determining production and employment:

Exactly the reverse attitude is represented by one of his (Marx's) eminent pupils, Rosa Luxemburg. In her *Akkumulation des Kapitals* she stressed the point that, if capitalists are saving, their profits can be 'realized' only if a corresponding amount is spent by them on investment. She, however, considered impossible the persistence of net investment (at least in the long run) in a closed capitalist economy; thus, according to her, it is only the existence of exports to the non-capitalist countries which allows for the expansion of a capitalist system. The theory cannot be accepted as a whole, but the necessity of covering the 'gap of saving' by home investment or exports was outlined by her perhaps more clearly than anywhere else before the publication of Mr. Keynes's *General Theory*.⁶

In recent years, Kalecki devoted a short but substantial article on Rosa Luxemburg and Mikhail Tugan-Baranovsky, drawing out the significance of *The Accumulation of Capital* for the contemporary economic theory of capitalism.⁷ But the role of Michał Kalecki extends far beyond his direct references to Rosa Luxemburg's theory of accumulation. Just as in the appraisal of John A. Hobson, himself currently the object of a revival of interest, the natural frame of reference is the theory of Keynes,⁸ so in this book Michał Kalecki's theory of capitalist dynamics serves the same function in appraising Rosa Luxemburg's theory of accumulation (the situation is different in the case of Rosa Luxemburg's theory of imperialism with which we seek comparison in the works of Rudolf Hilferding and Vladimir Lenin). In Kalecki we see the most distinguished successor to the theoretical work of Rosa Luxemburg since (within the scope discussed below) he resolved the problems over which the author of *The Accumulation of Capital* toiled so obstinately. Kalecki is therefore in a sense the second hero of this monograph.

Is this approach an expression of a wholly subjective cult of Kalecki? Still worse, is it not an expression of national megalomania? Let us try to settle certain undoubted facts and make our relationship to Kalecki somewhat more objective, by reference to competent Western opinion about the role of Kalecki in the development of modern economic theory.

The author of a book, highly regarded in the West, about the 'Keynesian revolution' wrote on the occasion of the appearance of Roy Harrod's book on Keynes:

Recently, after having re-examined Kalecki's theory of the business cycle,⁹ I have decided that he actually created a system that contains everything of importance in the Keynesian system ... I believe that he has a theory of employment that is the equal of Keynes's. Kalecki's theory attracted attention for reasons largely unrelated to its revolutionary statement of the theory of employment, and he certainly lacked Keynes's reputation or ability to draw world-wide attention; hence his achievement is relatively unnoticed. Some aspects in which Kalecki's model is superior are that it is explicitly dynamic; it takes income distribution as well as level into account; and it makes the important distinction between investment orders and investment outlays.¹⁰

An even greater admirer of Kalecki is Joan Robinson, perhaps the most distinguished student of J.M. Keynes, and considered on the left wing of his school of thought. More than once she has emphasized Kalecki as a precursor of Keynes.¹¹ This is done most fully in her essay 'Kalecki and Keynes'.¹² Of course the essay was written for a volume in honour of Kalecki, which is not really an occasion for the expression of objective assessments. But I think we can be certain that her judgement, in the matter of Kalecki's priority in relation to Keynes' *General Theory* and in Kalecki's role in the further development of economic theory, is not only most competent, but also objective. Recalling that Keynes' book was published in January 1936, she wrote, 'Meanwhile, without any contact either way, Michał Kalecki had found the same solution. His book *Essays in the Theory of Business Cycles* published in Polish in 1933 clearly states the principle of effective demand in mathematical form.'¹³

And there are two further opinions of the same author: 'Kalecki had one great advantage over Keynes – he had never learned orthodox economics ... The only economics he had studied was Marx ... In his *Essays in the Theory of Economic Fluctuations* published after he had been a little while in England, he filled several gaps in Keynes' formulation of the theory of employment.'¹⁴

Among socialist writers, Antoni Pański gave the first indication of the Marxist origins of Michał Kalecki's theory of business cycles¹⁵ and of the close affinity between that theory and Rosa Luxemburg's theory of accumulation. Pański described her book as 'perhaps the best book to have

been hitherto published by the orthodox Marxist school'. But this was a rather exceptional view since, in the 1930s, Marxists did not approve of Kalecki's theory. Ignoring the principle of effective demand, they were inclined to include him in left-wing Keynesianism. The problem with categorizing him in this way is that his theoretical work resulted in socialist conclusions, which the author himself explicitly expressed in his many publications in *Przegląd Socjalistyczny*.¹⁶ The theory goes far beyond Keynesian social horizons. However, we would wish to provoke a discussion on this. But since even today there are economists inclined to deny Kalecki's place in the Marxist stream, let us formulate two opinions for which it would be easier to find quite widespread agreement, and which are sufficient for our purposes.

1. The essential construction of Kalecki's dynamic theory is derived from the Marxian schemes of reproduction, to which he gives a specific, capitalist, demand interpretation.
2. In his social conclusions Kalecki is anti-capitalist. The many later works of this author on the socialist economy remove any doubt about his links with socialism.

Accepting these two opinions ought to dispel any suggestions that assessing the theory of accumulation of Rosa Luxemburg from the point of view of Michał Kalecki's theory of capitalist economic dynamics is an attempt to exclude Rosa Luxemburg from the socialist-Marxist tradition.¹⁷

Part I

Capitalist Barriers to Growth

1

The Origin of the Problem: A General Outline of the Work

1

Rosa Luxemburg's first economic paper was her doctoral thesis written in Switzerland in 1893, published in 1898 under the title *Die industrielle Entwicklung Polens*.¹ This work was a historical economic monograph on the subject of the development of industry in the Kingdom of Poland and the dependence of that industry on Eastern markets. The author argued that industry in the Kingdom of Poland, to a large extent, owed its establishment and rapid expansion to the protectionist tariff policy of the annexing state Russia. In this way, the Russian occupiers sought to tie the interests of the Kingdom's capitalist class to the Russian Empire. Consequently, capitalism in the Kingdom of Poland relied on the vast markets in the East (both Russian and Asian).

Rosa Luxemburg focused not on a general analysis of capitalism, but on the capitalist industrial development and even more specifically on the development of heavy and semi-heavy industry. The problems of capitalist development in agriculture and in small-scale urban-industrial production remained in principle outside the scope of her interest. It was precisely in reference to the heavy industry that Rosa Luxemburg's claims of the predominant role of the eastern markets and the state economic policy (tariffs in particular) were justified.²

In order not to return later to the issue of the political conclusions which Rosa Luxemburg derived from the economic analysis, it needs to be emphasized that her fundamental policy on the national question was formulated, in our opinion, on an excessively narrow economic basis. The author tended to apply her thesis of the fundamental convergence of economic and political interests between the Russian capitalist class and the Polish *haute* bourgeoisie to the whole bourgeois

class in Poland, even the petty bourgeoisie. This *pars pro toto* fallacy was the basis of Luxemburg's erroneous policy on the national question. However, these political conclusions did not necessarily stem from her economic analysis, as critics of 'luxemburgism' attempted to prove. Furthermore, they are not and cannot prove that her analysis – though incomplete – is incorrect.

At this point, it is worth clarifying the misunderstanding arising from the fact that Rosa Luxemburg's *Accumulation of Capital* has often been contrasted in Marxian historiography with Lenin's *Development of Capitalism in Russia*. It was argued that these studies were based on two distinct, and even conflicting, theories of capitalist development. However, this notion does not seem to be justified. Engaging in a polemic with the Narodniks, in the preface to the aforementioned work, Lenin expressed his conviction that 'it was necessary to examine the whole process of the development of capitalism in Russia, to endeavour to depict it in its entirety'.³ Nevertheless, he treated this statement as a hypothesis and introduced a number of distinct limitations of the analysis that are forgotten:

It goes without saying that such an extensive task would be beyond the powers of a single person, were a number of limitations not introduced. Firstly, as the title itself shows, we treat the problem of the development of capitalism in Russia exclusively from the standpoint of the home market, leaving aside the problem of the foreign market and data on foreign trade. Secondly, we limit ourselves purely to the post-Reform period. Thirdly, we deal mainly and almost exclusively with data concerning the interior, purely Russian, *gubernias*. Fourthly, we limit ourselves exclusively to the economic aspect of the process.⁴

Lenin's book confirms that he abided by the very rigorous limits of the subject matter imposed in the preface. He exceeded them only briefly in the last chapter of the book while sketching the general picture of the development of Russian capitalism. Consequently, issues crucial to the general theory of capitalist development, such as the role of the state (in terms of tariffs policy, trade protection, etc.) for the development of capitalism in Russia, the processes of primitive accumulation, the significance of the more distant territories for the economic development of central Russia, and so on, remained outside his analysis. In this light, it is clear that treating his work as a general theory of capitalist development or as an account of the general development of capitalism and even of a general path of this development in Russia

is certainly not what Lenin intended. Such interpretations ascribed to Lenin an understanding of the process of capitalist development that was closer to Adam Smith than to Marx. The latter himself emphasized that not only was history of capitalism related to various forms of non-economic coercion, but capital also emerged 'dripping from every pore, with blood and dirt'.

It is equally incorrect to apply the same reasoning to the work of Rosa Luxemburg, who was preoccupied with the external conditions of the development of (heavy) industry in the western borderland of the Russian Empire. She was prompted to such research by the nature of the statistics on which her study was based. She did not have access to the outstanding statistics of the administrative districts, much used by Lenin and allowing for a thorough analysis of the first stages of capitalist development. Instead, she had to rely on the heavy industry statistics, and particularly on the export and import data, which were at the time the most readily available. Furthermore, her analysis was complemented by statistics on tariffs.

The conclusion is clear. The disparity of views between Lenin and Rosa Luxemburg was determined primarily by different subject matters characterizing their respective books. From a historical perspective, the two approaches seem to be complementary rather than competing, as argued by critics of luxemburgism. Both studies provide a resource for generalization and theoretical synthesis. Did Rosa Luxemburg have a complete idea of the *Accumulation of Capital* while writing her pioneering⁵ work on the industrial development in the Kingdom of Poland? There is no basis for such a conclusion. Rather, it is safer to adopt a more modest hypothesis that the empirical material, encountered by Luxemburg at that time, revealed the significance of the state and external markets in shaping capitalist relations. Only at a later stage was this specific historical experience transformed into a need for a different theoretical view of capitalist development and the conditions of capital accumulation in general.

2

The first independent reflections of Rosa Luxemburg on the theory of political economy are found in the well-known pamphlet *Social Reform or Revolution*, written at the turn of the twentieth century. In a polemic with Eduard Bernstein, she took into consideration such issues as the role of cartels and credit in exacerbating the internal contradictions of the capitalist economy, the nature and causes of over-production crises,

the character of the cooperative movement under capitalism and the problem of the demise of capitalism. Out of all these considerations, we discuss here only one issue that is most genetically connected with the *Accumulation of Capital*.

Luxemburg argued that Bernstein's views on the role of cartels, trusts and new credit institutions in alleviating the internal contradictions of capitalism and eliminating anarchy and crises, undermine the major foundation of scientific socialism. If Bernstein's proposition, that development of capitalism does not lead to its destruction, is accepted then socialism ceases to be 'objectively necessary'. It was through such reasoning that the issue of crises and the end of capitalism came to the forefront of Luxemburg's polemics. In the part of her argument concerning the new phenomena in capitalist economy, namely cartels, trusts and modern credit institutions, Luxemburg's response was surprisingly mature and convincing. However, she did much worse in confronting the view of crises and the demise of capitalism that was already standard in socialist literature. Her response to these problems was so unsatisfactory that it allowed Bernstein to triumph. Nevertheless, even here Luxemburg formulated some interesting ideas, planting a seed for her future theory of capitalist development.

Above all, Rosa Luxemburg emphasized the need for the separate treatment of two issues, which had hitherto been inseparable in the socialist literature. The demise of capitalism was widely regarded as a consequence of ever-increasing crises of over-production, as part of a more general issue of crises. Luxemburg opposed this approach, writing that:

socialist theory up to now declared that the point of departure for a transformation to socialism would be a general and catastrophic crisis. We must distinguish two things in this theory: the fundamental idea and its external form. The fundamental idea consists in the affirmation that, as a result of its own inner contradictions, capitalism moves toward a point when it will be unbalanced, when it will simply become impossible. There were good reasons for thinking of that juncture in the form of a catastrophic general commercial crisis. But, nonetheless, that is of secondary importance and inessential to the fundamental idea.⁶

These original thoughts did not, however, give rise to a broader analysis of the economic causes of capitalist breakdown. Instead, they became the basis for the formulation of a both original and unconvincing concept of crises. In this way, Rosa Luxemburg argued that the period

of 'tranquillity' in the world market at that time was of a temporary character. It implied that the crises typical of the early stage of capitalism ceased to occur, while the crises of advanced capitalism had not yet emerged. She regarded the identification of major cyclical commercial crises at that time with the crises of advanced capitalism formalized by Marx, as a misunderstanding. In economic history, Luxemburg argued that the global crises emerging from 1825 up until the 1870s were related to acquiring new markets and realizing new types of large investments. The cause of these downturns was a sudden expansion of capitalist economic activity rather than its contraction or exhaustion. Marx's theory pertained only partially to the commercial crises at that time, as:

the Marxist formula for crises, presented by Engels in *Anti-Dühring* and by Marx in the first and third volumes of *Capital*, applies to all crises only in the measure that it uncovers their international mechanism and their general basic causes. However, in its entirety this formula applies only to the advanced capitalist economy, when the existence of the global market is already taken for granted. Only then can crises repeat themselves in the mechanical manner adopted by Marx, resulting from the internal process of production and exchange, without the external impulse in the form of a sudden shock of the market production relations. We have not yet entered the phase of a completely mature capitalism, which is assumed by the Marxian scheme of the periodical nature of crises. The global market still remains in the phase of development.⁷

Furthermore, Luxemburg's assessment of world capitalist production led her to conclude that this form of production constituted merely a small portion of the world economy. Only in the 1870s did Germany and Austria enter the capitalist phase, while Russia did so in the 1880s. France was still a predominantly small-scale industrial country. The Balkan states had not yet broken the shackles of the natural economy. America, Australia and Africa entered the path of systematic trade with the capitalist Europe as late as in the 1880s.

Thus, the average economic conditions prevailing in the world for 20 years were a characteristic feature of the transition phase of capitalism, 'in which crises no longer accompany the emergence of capitalism, but are not yet a symptom of its collapse.'⁸ Nevertheless, Rosa Luxemburg expressed her conviction that development leads inevitably to crises of advanced capitalism. When the global market fully expands, the unconstrained rise of labour productivity will eventually lead to a conflict

between the productive forces and the limits of the market. Occurring repeatedly, the conflict will inherently tend to become more acute and turbulent.

There is no need to undertake a scrutiny of these views, since Luxemburg herself soon recognized their immaturity. Preparing the second edition of her book, she removed all fragments referring to the 'early' and 'advanced' stages of capitalism or to the transition phase.⁹ The entire concept was immature not only in terms of the vague/ineterminate character of the recession-free transition stage, but primarily because it assumed the stabilization of the world market. However, that era had already seen a period of increased expansion into external markets, shaping the global imperialistic system.

What is nevertheless interesting in Luxemburg's concept is a clear movement towards the new phase of capitalism; an intuitive but strikingly accurate periodization of capitalism distinguishing between three stages of capitalist development: the phase of early capitalism, the transition period and finally advanced capitalism, the last stage of development.¹⁰ Another interesting issue was Luxemburg's conviction that in the advanced phase of capitalism some of the fundamental economic phenomena (e.g. crises) would take place differently, in a different form. Unfortunately, she simultaneously expressed her belief that the Marxian theory of capitalist development, particularly in terms of crises, would explain the future advanced capitalism, characterized by a fully developed world market, more succinctly and precisely than it was able to do at that time. This conviction prevented her from undertaking an independent analysis of the specific characteristics of advanced capitalism.

Nonetheless, in this reasoning it is easy to identify the origins of the main strand of theoretical investigation conducted later in the *Accumulation of Capital*. Already at that time Rosa Luxemburg analysed capitalism from the point of view of its expansion into the entire world economy. The crises of capitalism were, in her opinion, a result of the expansion and contraction of (primarily) external markets. Thus, she regarded the Marxian thesis, that the main source of the business cycle lay in the reproduction of constant capital, as an exogenous and insignificant element of the theory of crises. Furthermore, it was in relation to capitalism's expansion into world markets that Luxemburg analysed the phase of advanced capitalism and its demise.

A similar conclusion is encountered in the last chapter of the *Introduction to Political Economy* (1912), where general tendencies of the capitalist economy are described. However, it contains certain new

aspects reflecting Luxemburg's increasing doubts as to the correctness of her own understanding of capitalism at that time.

Analysing the relationship between capitalist production and the expansion of markets, Luxemburg observed that the tendency of capitalism to stagnate was an inevitable future of all industrial economies. She remarked that the reason for Britain's rapid development in the 1860s and 1870s was its domination in world market. When Germany and the USA progressively crowded Britain out of the global market, Britain's pace of growth slowed down substantially. Further, Luxemburg predicted that a similar fate imminently awaited German and North American industry, and eventually the industry of the whole world. 'With every step of its development', she wrote, 'capitalism inevitably draws near to the moment when it will become increasingly more difficult to develop and expand and that development will take place more and more slowly'.¹¹

Would this prophecy of stagnation be realized in the distant or near future? In Luxemburg's answer it is possible to detect a great deal of doubt and hesitation. Repeated accounts of the development of the capitalist mode of production led her to conclude that the development of capitalism itself still had a long way ahead, since capitalist production in general constituted an insignificant portion of world production. Nevertheless, Luxemburg deemed it necessary to reduce the importance of a forecast so optimistic for the bourgeoisie. Her explanation was twofold:

1. Economic life in the European countries and social classes which were not yet capitalist, as well as the life of the non-European countries, was dominated by capital. Similarly, even the most primitive non-European economies were under the control of European and North American capitalism through global trade and colonial policy.¹²
2. The capitalist mode of production itself could potentially experience a massive expansion if 'it managed to supplant more backward forms of production'.¹³

The second doubt is particularly important. Would capitalism be able to take over the backward modes of production? This remains a big question! It touches upon the contemporary conviction that capitalism will not be able to conquer and transform the traditional, pre-capitalist modes of production in the developing countries. For Rosa Luxemburg it was an intuition not transformed further into a theoretical thesis. Nonetheless, the mere recognition of this issue, the questioning of the established view

and even the explanation itself, linking the difficulties in the taking over by capitalism of the backward modes of production to the contradictions arising all over the world within the system, deserve our utmost attention. Luxemburg's further line of argument was as follows:

Generally speaking, development follows this direction [i.e. in the direction of widespread take-over of backward modes of production by capitalism – T.K.]. However, precisely in the course of this development capitalism is entangled in a contradiction: the greater the degree in which capitalist production crowds out the more backward forms of production, the narrower do market boundaries become, arising in result of common profit interests. These boundaries allow to satisfy the need to expand production of the already existing capitalist enterprises. The issue becomes clear if we imagine for a moment development of capitalism so far reaching, that on the whole Earth everything that a man produces has a capitalist character, i.e. that everything is produced by private capitalist entrepreneurs in massive plants employing modern hired labour. Then the impossibility of capitalism's existence will become fully manifest.¹⁴

It is at the point where the last chapter of the *Introduction to Political Economy* ends that the direct history of the main and most original work of Rosa Luxemburg – *The Accumulation of Capital* – begins. The circumstances in which the intention to write the *Accumulation...* emerged were revealed by the author in the preface:

The incentive to write this work arose from the popular introduction to political economy, which I have been working on for quite a while and whose completion has been persistently interrupted by either my work in the Party school or my agitation activities. When in January this year [1912], after the elections to the parliament of the Reich, I returned to finishing at least the outline of this popular exposition of Marx's economic science, I encountered an unexpected difficulty. I could not present the entirety of the capitalist production process in a sufficiently lucid manner, in its specific relations or in its objective historical boundaries. On second thought I came to a conclusion that it is not just about the depiction of the topic, but also about the issue which remains theoretically related to the content of the second volume of Marx' *Capital*, entering simultaneously the practice of today's imperialistic policy and overlapping with its main economic foundations. If my attempt to present this issue in

a strictly scientific way was successful, then it seems to me that this work would not only evoke purely theoretical interest but it would also bear significance for our practice of fighting imperialism.

While writing the first chapters of the *Introduction...*, Rosa Luxemburg was convinced that political economy had reached 'its summit and its limits' in Marx's theory and could only therefore be developed by his successors 'in its details'. The systematic presentation of Marxian economics that followed led her to conclude that fundamental economic problems of capitalism need to be re-examined in their essence, resulting in the analysis of completely new issues.

The full table of contents of the *Introduction to Political Economy* was listed above (Cf. Note 11). It is notable that no chapter on the accumulation of capital is found, or even more generally – concerning the reproduction of capital overall. Furthermore, there is not a single title referring directly to the new phase of capitalism, i.e. imperialism. Rather, the entire chapter devoted to trends in capitalist development indicates that Luxemburg did not recognize the theoretical issue of imperialism as a distinct phase of capitalist development. The only exception to this observation are the fragments quoted above, which are nevertheless very general in content and more descriptive in character. As was argued, these fragments should be interpreted primarily as an initial formulation of doubts, a brief outline of the problems, to which Rosa Luxemburg would devote her key work.

The recognition of these issues, especially regarding the role of developing countries in exacerbating internal contradictions of the capitalist system and in the demise of capitalism, as well as solutions to these problems emerging in her mind, constituted a major creative experience for Luxemburg. She felt as if she had made a sudden, enlightening discovery and she had to hasten to share it with a broader audience. The history of economic thought has probably no similar case, when a serious economic work came forth within such a short period of time. In the realm of political economy new ideas matured very slowly and grand works were written over the course of many years or – as Marx's *Capital* – decades. However, *The Accumulation of Capital* was completed within four months.¹⁵

And here is Luxemburg's account of the history of her work:

The time when I was writing the [first] *Accumulation of Capital* belongs to the happiest of my life. Really I was living as though in euphoria, >>on a high<< [>>wie im Rausch<<], saw and heard nothing

else, day or night, but this one question, as it unfolded before me so beautifully, and I don't know what to say about which gave me the greater pleasure: the process of thinking, when I was turning a complicated problem over in my mind, pacing slowly back and forth through the room or the process of giving shape and literary form to my thoughts with pen in hand. Do you know, at that time I wrote the whole 30 signatures [*Bogen*] all at one go in four months' time – an unprecedented event! – and without rereading the *brouillon* [the rough draft], not even once, I sent it off to be printed.¹⁶

Apart from the process of writing itself, in that short period of four months fell not only the process of reasoning but also the collection of bibliographic material. Hence in analysing the contents of Rosa Luxemburg's main work one has to bear in mind the unusual, for an economic study, circumstances of its genesis. Despite its captivating literary form, the book is extremely difficult to read primarily because of the hastily formulated thoughts, taking no care of the consistency of terminology or bringing the arguments to a logical end. This method of creation is more typical of an artwork rather than a scientific work in an academic sense. The mental state of the author resembled a volcano active for four months and expelling muddled streams of thoughts. It is difficult not to agree with Joan Robinson, writing in the foreword to the English edition of Luxemburg's work that 'the argument streams along bearing a welter of historical examples in its flood, and ideas emerge and disappear again bewilderingly'.¹⁷

In this light, the lack of unanimous interpretation of the book is understandable. Indeed, even relating its main arguments is a highly individual matter for each reader, who is faced with a choice of numerous and often contradictory strands of thoughts. Comparing the well-known interpretations of the book contained in the publications of Bukharin, Sternberg, Grossmann, Frölich, Sweezy, Dobb¹⁸ and others, one has to conclude that economic literature does not know any other work whose interpretations would be so dramatically different not only in details and emphasis but also in identifying the fundamental idea of its author. It is even difficult to find agreement on the question of what constitutes the leading argument of Rosa Luxemburg's *Accumulation*.

The formal aspect of such rapidly written work, its internal logic, consistency as well as the method and success of fulfilling the objectives outlined by the author are particularly interesting. We turn our attention to some of these issues.

The full title of the book is *The Accumulation of Capital: A Contribution to an Economic Explanation of Imperialism*. The title, as well as the foreword quoted above, points towards two distinct layers of the book, consisting of three parts (similar in length). The first section ('The Problem of Reproduction') is devoted to the exposition of the Marxian theory of reproduction. After defining the concepts in the first chapter, there is an exposition and critical analysis of the process of reproduction put forward by Quesnay and Smith. Further chapters contain the analysis of Marxian schemes of simple and enlarged reproduction, along with an outline of the analysis of the role of money and monetary circulation in the process of reproduction.

The second section presents the understanding of these issues throughout the course of history of economic thought. The objective of this and the previous chapter is to prove that in the history of economic thought until that time no solution to the problem of enlarged reproduction of social capital can be found, despite the fact that this issue provoked numerous theoretical disputes. Joan Robinson seems to be right when she writes that 'we leave the discussion, at the end of Section II, at the same point where we entered it'.¹⁹

The most important and original as well as the richest in contents is the third section: 'The Historical Conditions of Accumulation'. The title of this part not only describes precisely the substance of the final section of the book, but also perhaps most accurately conveys the sense and direction of Rosa Luxemburg's discourse. It was the search for historical conditions of accumulation – or, more generally, for the conditions of economic development of capitalism – that led her to a polemic with Marx and to take up the topic of capitalist development anew. The results of her analysis in this area leave a specific mark of originality on Rosa Luxemburg's theory of capitalist development. Furthermore, this part of the book contains Luxemburg's thoughts on imperialism. In the first chapter of this section the author returns to the Marxian schemes of reproduction, highlighting the deficiencies and contradictions of Marxian argumentation. In the subsequent chapters, she moves on to analyse the reproduction of social capital in relation to the pre-capitalist environment. This analysis was intended to be a theoretically generalized historical account of the material exchange between capitalist production and the earlier modes of social production. The sequence of topics is as follows: the struggle (of capital) against natural economy, the formation of commodity economy, the struggle against peasant economy, and further, international loans, the relationship between protective tariffs and accumulation and finally militarism as a province

of capital accumulation. The last three topics (and chapters) are directly related to the analysis of imperialism, although many theses and arguments of the latter concern capitalism in its entirety.

A brief survey of the contents of the book already indicates a clear shift in the nature of the analysis – from abstract and theoretical in the first section to historical and economic in the last part. The manner of exposition of Rosa Luxemburg's ideas and the means of expression used by her are closer to literature of the German historical school than to Marx's *Capital*. In part, this was a result of the hurry, in which the book was written. Partly, however, it was due to the inadequacy of the categories and tools of economic analysis existing at that time for the problems Rosa Luxemburg attempted to solve. While reading the first part of the book one hopes that, fascinated by the precision and rigour of the Marxian schemes of reproduction, Luxemburg would recognize them as a building block of scientific economics and would strive to present the relationship between capitalism and non-capitalist environment with their help. In the third section she made an attempt twice to utilize this analytical tool. We will see, however, that these attempts were not decisive in determining the theoretical significance of Rosa Luxemburg's work and that they were not the strongest aspects of her theory.

2

The Russian Dispute over Markets: From the Narodniks to Lenin

Rosa Luxemburg devoted the second part of the *Accumulation of Capital* to a discussion of arguments on the relationship between production growth and markets under capitalism. She called the ‘first round’ of dispute the clash between Sismondi and Ricardo and the second, the exchange of views between Rodbertus and Kirchmann. Finally, she identified the argument between Narodniks and legal Marxists in Russia as the third round. In this chapter, we reconstruct only the third round, treating it as a good historical introduction into the subject-matter.

1

The Russian Narodnik movement, a vivid display of diverse views and tendencies, left its lasting mark not only on *belles-lettres* literature, social philosophy and history, but also on economics. The most prominent economic theorists belonging to the reformist strand of the Narodnik movement developed the pioneering concept of non-capitalist development of underdeveloped countries. At the root of this idea lay a specific theory of markets (realization), related to Rosa Luxemburg’s theory of accumulation.

In a collection of essays published in 1882 entitled *Sud’by kapitalizma v Rossii*¹ Vasilii P. Vorontsov (1847–1918) outlined his views on three fundamental issues:

1. The relationship between the development of capitalism and foreign markets;
2. The impossibility of capitalist industrialization in Russia;
3. The possibility of non-capitalist industrialization.

Vorontsov based the relationship between capitalist development and external markets on a very simple (and even primitive) theory of realization. The development of capitalist production increasingly exacerbates contradictions between production and domestic consumption. Capitalist labour organization results in a rapid growth of labour productivity, and thereby in a rapid growth of industrial production. But this kind of labour organization by capital has a perverse character contradictory to the 'true' development of socialized forms of labour. Instead of contributing to a shortening of working hours and to a more complete fulfilment of workers' needs, it leads to the lengthening of labour time, increasing its intensity, simultaneously restricting workers' purchasing power. The rise in consumption is limited to a small handful of factory-owners and 'various types of speculators'. Hence the faster the growth of capitalist industry in a given country, the quicker will the needs of the internal market be satisfied and the sooner will an external market become necessary. 'From this one can see how unstable equilibrium is in the new system of production, how natural to it would crises be.'²

This simplistic theory of 'surplus', which can be regarded as a travesty of Sismondi's theory of realization (this is why Rosa Luxemburg did not treat Vorontsov seriously) became the basis for a very interesting theory of economic development of underdeveloped countries. Recalling that countries which enter the path of historical development later than others can take advantage of the experience of the more advanced countries, Vorontsov warned that the path of utilizing these experiences may be slippery. Nothing is easier than to interpret a localized and idiosyncratic phenomenon as universal, and then adopt as a law that which is merely one of the forms of its manifestation. Vorontsov asked very resolutely: 'Where should one recognise the law: in the expansion of industry regardless of the process by which it takes place or in the socialisation of labour in no other than the capitalist way?'³ Moving on to analysing the situation of an under-developed country, Vorontsov noticed that this situation is determined by two contradictory factors. On the one hand, the industry of that country can adopt any organizational and technical form developed in the advanced Western countries, which creates a possibility for very rapid growth. On the other hand, this industry has to compete in foreign markets with experienced, industrially established countries, which may lead to a complete suppression of emergent capitalism. Hence, the later 'a given country starts to industrialise, the more difficult it is to undertake this in a capitalist way'.⁴

If this is the case, continued Vorontsov, if a victory of capital in one country is an obstacle for the development of capitalism in another, then 'the principles of industrial development of humanity' indicate that under-developed countries, deprived of the possibility of capitalist industrialization by the external conditions, can choose – ignoring the stabilization of backwardness – an alternative: 1) to socialize labour 'differently than in the capitalist way'; or 2) to passively await the moment when 'production in more advanced countries completes the full cycle of its development' and is transformed into socialism. (Due to censorship considerations Vorontsov called this future form of labour organization 'popular'.)⁵

'One has to accept as the most plausible', concludes Vorontsov, 'the possibility that not each nation must inevitably go through the capitalist phase of industrial development, that in young countries capitalist production will in vain try to achieve the same position it attained in the countries of classical capitalism and that the socialisation of labour, if it is indeed inevitable, will be realised in a different way'.⁶

While Vorontsov was a medical doctor by education and profession, the second prominent economist of the Narodnik movement was an educated theorist and a more independent thinker, who nevertheless reached similar conclusions. Nikolay Danielson (1844–1918; he usually used his *nom de plume* 'Nikolay-on') not only completed a course at a school of economics (commerce) and later worked in the St Petersburg Mutual Credit Association, he was also a renowned expert and popularizer of Marx's works. All three volumes of *Capital* appeared in his translation. Thanks to him and to H. Lopatinov, who initiated the translation, the Russian edition of the first volume (from 1872) was the first foreign language translation of the book. The subsequent volumes appeared in 1885 and 1896 respectively, thus in a very short time after the original work had been published. From 1868 Danielson was a correspondent and the main informant to the authors of the *Communist Manifesto* on Russian affairs. His key book *Studies of Our Post-Reform Economy*, whose abridged version was directly inspired by Marx, was published after Danielson had analysed the first two volumes of Marx's most outstanding work. The Russian translator of this work regarded himself as a Marxist. He often referred to works and correspondence of Marx and Engels, interpreting them, of course, in a peculiar way.⁷

The essence of Danielson's theory of realization amounts to the following thesis. The growth in commodification of direct producers leads these producers to satisfy their needs through their own products to a progressively lesser extent. Conversely, the goods sold are increasingly

‘the product of peasant labour, the product of merely a part of one year’s work, hence capitalism, having reached a certain boundary of development, tightens its own internal market’.⁸ Danielson presented a more detailed explanation of this general thesis in six points below:

1. Growth of labour productivity leads to a shortening of the labour time necessary to satisfy material needs of the internal market.
2. Capitalism deprives peasant craftsmen of work, so that their time outside seasonal farm production becomes a social loss, which depresses the purchasing power of the society.
3. Peasants sucked into capitalism are forced to give up that part of their own production, which should remain for their consumption. According to Danielson this also restricts their demand for industrial products.
4. The fall in the relative value of agricultural products translates into the contraction of total demand.
5. The increase in the tax burden on peasants facilitates capital accumulation but, on the other hand, limits their purchasing power.
6. It is increasingly difficult to capture foreign markets due to a fierce competition from advanced capitalist countries.

Danielson argued that while the account of causes limiting the internal market could be multiplied, they all come down to the fact that in capitalism ‘it is not the whole population but only one, relatively small class who benefits from the fruits of increased productivity, concentration and socialisation of production’.⁹

This general contradiction of capitalism manifests itself more strongly the later a given country enters the path of capitalism, since that country cannot turn to foreign markets when all of them are already occupied.¹⁰ Emphasizing the unstable character of Russian capitalism while all other European countries move forward rapidly, Danielson was convinced that Russia could be satisfied neither with traditional handicraft production nor with artificially promoted and supported capitalism which would develop, violating the interests of the entire population. ‘Russian society faces the necessity to achieve a great, immensely difficult, but not impossible task – the task of expanding the productive forces of the population in such a way that they can be utilised not by the insignificant minority but by the whole nation’.¹¹

According to Danielson, the community (*‘obshchina’*) is not able to provide its members with a normal existence. In a battle with capitalism, it is threatened with destruction. Nevertheless, communal land ownership

is one of the pillars on which the future social system can be built. 'Based on scientific foundations, agriculture and modern heavy industry will need to be transferred to the ground of community. Simultaneously, the community itself will have to be transformed in such a way that it could become a suitable means to organise the heavy industry to transform its capitalist form into a social one. Socio-economic organisation does not face any other path: either development or degeneration or death.'¹²

2

The theory of non-capitalist development of Russia and in particular the theory of markets developed by Vorontsov and Danielson evoked fervent disputes in the 1890s. Along with the once isolated Plekhanov, an entire Pleiād of the so-called legal Marxist writers emerged at that time. In reference to this, Rosa Luxemburg wrote:

This battle of wits, brilliant in parts, which kept the socialist intelligentsia spellbound in the nineties and was only brought to an end by the walkover of the Marxist school, officially inaugurated the infiltration into Russian thought of Marxism as an economic, historical theory. 'Legalist' Marxism at that time publicly took possession of the Universities, the Reviews and the economic book market in Russia – with all the disadvantages of such a position. Ten years later, when the revolutionary risings of the proletariat demonstrated in the streets the darker side of this optimism about capitalist development, none of this Pleiād of Marxist optimists, with but a single exception (that was Vladimir Lenin – T.K.), was to be found in the camp of the proletariat.¹³

A theoretical peculiarity of the polemic with Narodniks at that time was the discovery and utilization of Marxian reproduction schemes. While in the west of Europe this construct drew the attention of Marxists only shortly before the First World War, in Russia the polemic with Narodniks to some extent revolved around the reproduction schemes contained in the second volume of Marx's *Capital*, published by Engels in 1885. Some of the most prominent economists of that Pleiād (from which we exclude Lenin, devoting a separate section to his early works) are: S.N. Bulgakov, Peter Struve and above all Mikhail Tugan-Baranovsky.

The most prominent economist from among the legal Marxists was Mikhail Tugan-Baranovsky, author of the book entitled *Periodic industrial crises, the history of crises in England and the general theory of crises*

(1894). This work was intended as a polemic with the Narodnik theory of realization but translated into German it triggered a probably larger wave of theoretical debate than in the Russian literature. Those who participated in these disputes included: L. Boudin, H. Cunow, H. Grossman, R. Hilferding, K. Kautsky, R. Luxemburg, K. Schmidt and many others. Along with the book by Bernstein (inferior to Tugan-Baranovsky in theory and in conceptual originality) and David's book on agriculture, Tugan-Baranovsky's book was regarded as the main theoretical and economic work of European revisionism. This ideological significance of Tugan's work brought fame to the author on the one hand but, on the other hand, influenced the interpretation of his theory as unequivocally pro-capitalist.¹⁴ This opinion was shared by the author of *The Accumulation of Capital*.

Involved with the illegal Russian social democracy in his youth, Tugan began an independent study of Marx's economic theory. In his book, perhaps for the first time in the world literature, he directed attention to the theoretical value of Marxian schemes of reproduction and accumulation. They constitute a fundamental theoretical construct of his book. The first part contains the history of crises in England. In the third part, Tugan contemplates the social meaning of over-production crises. For our purposes, only the second part, concerning the theory of markets and crises, is of interest.

An introduction to theoretical consideration is provided by a historical discourse, containing a polemical account of the theory of markets of the classical English school, Say, Malthus and Sismondi, as well as of Marx's 'school'. The main polemic emphasis of this discourse is an attempt to prove that Marx, and in particular Engels, developed views regarding the issue of markets which were similar to Sismondi. The basis of these views is the conviction that insufficient demand in the light of rapidly growing production leads the capitalist system to chronic over-production of goods and, in consequence, to its fall. Hence, it is clear that the Narodnik efforts of interpretation bore fruit even in the works of their adversaries.

In subsequent editions of his book, Tugan demonstrated that this interpretation constitutes the foundation of views predominant among German social democrats, most fully expressed by Karl Kautsky and Heinrich Cunow. Tugan regarded their position as a sign of loyalty to the theses of their teacher. Moreover, he found it particularly interesting that it was also the German revisionist Karl Schmidt who held to the same theory of market insufficiency, although in Schmidt's view over-production was but one of the tendencies of capitalism.

In his attempt to 'solve' the problem of markets, Tugan argued that a scientific analysis of the process of capital accumulation, establishing the laws of realization of the social product, was only possible on the basis of the method of Quesnay and Marx, examining the social economy in its entirety. Unfortunately, Marx merely began this analysis and did not notice the logical conclusions that follow from the reproduction schemes. Furthermore, these conclusions remain in serious conflict with those views which Marx held when he constructed these schemes. Tugan-Baranovsky (following Engels) pointed out that the third volume of *Capital* was written before the second one. In these circumstances, Tugan was surprised that 'Marx's school' could not comprehend the problem posed by its master and hence he took the task upon himself.

In presenting his views, Tugan made use (similarly to M. Kalecki in the new literature) of the three-tier reproduction scheme, where the first department represents means of production, the second, production of workers means of consumption, and the third, production of capitalist means of consumption. Apart from this amendment, the analysis of simple reproduction is an ordinary restatement of the conditions of inter-departmental exchange formulated by Marx. The fundamental condition of uninterrupted reproduction is the production of capital goods within department I in quantity sufficient to recreate the production apparatus of all three departments, while departments II and III produce a correspondingly large surplus of consumer goods in relation to the size of wages and profits of workers and capitalists in department I.

Moving on to the conditions of enlarged reproduction, Tugan asked what would happen if being under competitive pressure capitalists refrained from consuming a certain part of profits and directed it to accumulation. Would the supply of goods still not outstrip demand in this case? In answering this question, Tugan kept to a 'moneyless' analysis of accumulation as under simple reproduction. He assumed that capitalists aim to capitalize the unconsumed part of profits rather than 'keep it as a treasure in a closed casket'.

Assuming that capitalists wish to capitalize one half of the value-added, then this only becomes possible if the proportions of national economy change so that production corresponds to an increased demand for capital goods and a diminished demand for consumer goods. In Tugan's view, the scheme proves that production creates its own demand. If only the appropriate inter-sectoral (and inter-branch) proportions are maintained then each expansion of production, required by the potential of productive forces, is accompanied by an equally large increase in

(market) demand. Each newly produced good constitutes newly created purchasing power for another good. Replacing workers with machines and the induced fall in workers' consumption do not lead, however, to a contraction of global demand, but shift demand from consumption to production. Hence, it is fairly possible that social wealth increases while social income and, consequently, consumption demand decrease.

On the occasion of the German publication of Tugan's book, Kautsky argued that Tugan's schemes rely on a special case where restricting consumption does not induce crises: in passing from simple to enlarged reproduction. However, Tugan generalized this scenario, regarding it as typical.

In response to this criticism, Tugan constructed schemes of reproduction dealing with a case particularly unfavourable to his theory. He demonstrated a scheme of expanded reproduction in conditions of constant capitalist consumption and of workers' consumption (wages) falling by 25 per cent a year. In this case, numerical examples also prove that falling workers' demand is entirely compensated by the rise in demand for capital goods. Hence, 'we do not encounter anywhere any difficulties in the realisation of the social product', everything runs as smoothly as if it was not the economy that constituted means to fulfil human needs but vice versa. 'Even if all workers were replaced by machines, one worker could set the whole of this enormous mass of machines into motion so as to produce new machinery. The working class would disappear, but that would not hamper the realisation of the capitalist industrial products in the least.'¹⁵

Of course, neither this situation nor the absolute fall in wages was regarded by Tugan as an actual process. On the contrary, he emphasized that the size of the working class was increasing ('in present times') and real wages were growing. Both these conditions allow for an even more vivid demonstration of a paradox; a paradox invented not by a theorist, as Kautsky argued, but 'the fundamental paradox of a capitalist economy'. Essentially, this paradox states that in contrast with any 'harmonious' economy, in the 'antagonistic' capitalist economy 'social production controls social needs'. 'Not capital for a man but man for the capital – that is the device of capitalist economy. And if Marx's school', continues Tugan, 'took over Sismondi's theory of markets, then this happened as a result of departing from the consequences of, and betraying, the fundamental principles of Marxism itself'.¹⁶

Moving to a polemical exposition of his own theory of crises, Tugan admitted that the Marx-Engels school gave the most in-depth explanation of crises since it highlighted their causes embedded in the nature

of capitalist production. However, he could not treat the explanation of this school as the ultimate solution to the problem. Agreeing with its premise that the fundamental cause of crises is the lack of organization of production and free competition, he simultaneously argued that the main difficulty lies in explaining the issue of business cycles.

The explanation of this phenomenon that we find in Tugan is not as clear as his theory of realization. However, without distorting his argument significantly it can be said that Tugan ascribed to the money (capital) market an important role in his theory of crises.¹⁷ In an attempt to answer the question why constant capital does not expand gradually but rather in abrupt shifts, Tugan argued that it is caused by free money capital, which was accumulating (increasing) more or less evenly, persistently seeking use in generating income. The more free money capital there is, the more dynamically it strives to penetrate into industry. 'In the end, so much money capital accumulates that the resistance of industry is broken. Then begins the era of industrial prosperity'.¹⁸ After a certain time, free capital is absorbed. Its demand starts to exceed its supply. This triggers an increase in the rate of interest, which initially leads to a stock exchange crash. However, in the period of stagnation new money capital accumulates seeking deposits and the cycle repeats itself. Tugan compares the workings of this mechanism to a steam engine, in whose cylinder the role of steam is played precisely by free money capital. 'If it reaches a certain amount, it penetrates into industry, drives it up, is spent and industry again falls into the previous situation'.¹⁹

This is the fundamental idea behind Tugan's theory of crises, which neither stood out for its in-depth analysis nor drew any particular attention from economists. So as not to return to it later on, it has to be indicated that his theory of markets (realization) did not become, despite appearances suggested by Tugan, the basis of his theory of crises. In that theory, he refers to phenomena, which he completely disregards in his theory of realization, conducting the analysis of reproduction under the assumption of money 'neutrality'. Furthermore, his reasoning, and in particular the suggestive analogy to the steam engine mechanism, seems to indicate that Tugan did not attempt to (or could not) develop a consistent theory of cycles and growth. Under such an optimistic theory of dynamic capitalist economic growth, whose immanent feature is accumulation, it might seem strange that business cycles are depicted as if around a horizontal line rather than following a trend. Sometimes it might seem that, although Tugan's book is devoted mainly to the history and theory of crises, he took up this issue as if only to prove that crises do not contradict his theory of realization.

Contrary to the theory of crises, Tugan's theory of realization deserves closer attention. It was repeatedly criticized and has attracted more or less justified accusations from many quarters. The most common allegation has been a claim that Tugan mixed the theoretical possibility of balanced economic growth with reality and, in interpreting Marx's theory, he identified the general conditions of the reproduction process formulated by Marx with its actual course.

However, it is worth reducing the correctness of this accusation to its true significance. Tugan's theory was often described as optimistically pro-capitalist or as 'harmonistic'. This allegation is correct if it is not tied to a suggestion that Tugan argued for the possibility of crisis-free development of capitalism; if one bears in mind that the objective of his 'theory of markets' was to repudiate the view that capitalism tends to stagnation, towards chronic depression or, or what writers would describe as the economic causes of the breakdown (or even 'crash') of capitalism. Tugan described unlimited possibilities of 'smooth' economic growth under capitalism, a nearly absolute independence of this growth from social needs and total (money) demand, whose shrinkage could be compensated by appropriately high investment increasingly aiming towards production for the sake of production.

Tugan's theory of markets is one-sided, but not entirely false. When the author argued that the key feature of capitalism was manifest in the paradox of production for the sake of production, in man's submission to the needs of production; when he identified it as an antagonism of capitalism contrary to the 'harmonious' systems, he produced an accurate and profound criticism of capitalism. One has to agree with Kalecki that this part of Tugan's line of argument constitutes 'his lasting contribution to the analysis of functioning of capitalism in its various phases'.²⁰ Thus, when Hilferding described Tugan's thesis of independence of capitalist production growth from social needs as 'mad Marxism', Tugan could have responded to that allegation with considerable legitimacy, just as he could have done to Kautsky, that it was not the theory itself but the system generalized in this theory which deserved to be labelled mad. Tugan's 'theory of markets' was 'mad Marxism' when he presented the above thesis as a general theory of long-term development of capitalism. In this instance it is fallacious not only as an interpretation of Marx, but also as a generalization of reality. Furthermore, if its significance is not restricted to the early phases of capitalist development it becomes apologetic.

Let us begin with its relation to Marx's theory. As is well known, in many parts of his work Marx engaged in a sharp polemic with J.-B. Say's

theory of realization and rejected his 'law' stating that there is no possibility of widespread over-production since each product creates its own demand. This polemic is particularly vivid in the first and third volume of *Capital*. Nevertheless, Tugan dealt with the anti-Saysian arguments of Marx by arguing that Marx's views evolved and that in the second volume, written, as witnessed by Engels, after the third one, the aforementioned polemic with Say could not be found, while the reproduction schemes were based on the assumption that production and realization conditions were identical.

Meanwhile, the thesis of evolution of Marx turns out to be a mere supposition. Against it one can argue that in the final chapter of the second volume of *Capital*, where the famous schemes are contained, Marx made an effort to incorporate money into the analysis of reproduction. The fact that Marx did not complete this volume of his work relates largely to this issue.²¹ Introduction of money would require restating (in a more extensive manner) the anti-Saysian formula of circulation.

For these reasons, the analysis of the problem of realization, excluding the 'perturbations' of the movement of circulating capital, resulting from difficulties in transforming goods into money and vice versa, or assuming that the sum total of capitalist profits above their consumption is somehow automatically invested, seems to be an original proposition of Tugan. This was a proposition with the features of a hypothesis, since Tugan assumed that this was actually taking place and did not even attempt to prove it. The rationale of this assumption is the conviction, mentioned by Tugan once or twice, that an immanent characteristic of a capitalist is his passion for saving in order to invest. Hence there is no reason to inquire what the determinants and motives are of investment decisions under capitalism since the sole barrier to investment are technical conditions. Tugan probably thought that this was also Marx's conviction. Who does not recall the words full of irony: 'Accumulate, accumulate! That is Moses and the prophets!'²² But Marx had the English capitalism of the first half of nineteenth century before his eyes. And such a conviction was generally correct. With a lesser deal of correctness one could relate this view to Tugan's Russia, as the Russian capitalism would have had to overcome the barriers of backwardness exaggerated only by the Narodniks. But Tugan addressed his theory to the developed and mature English capitalism, for whom the insufficient incentive to invest was becoming increasingly problematic. By not recognizing this problem and, in addition, generalizing the particular conditions of the early phase of capitalism, Tugan committed

the error of ahistorism. Hence, the relation of his theory to advanced capitalism is twofold. On the one hand, in this phase of capitalism Tugan's 'independence' of production from the consumption needs of society occurs very vividly in the form of the defence production sector. However, on the other hand, this sector, developed or at least supported by the state and regarded as a factor inducing economic growth, contradicts the basics of his theory, which is based on an immanent tendency of capitalists to accumulate.

Despite the errors and deficiencies indicated here, Tugan-Baranovsky's theory clearly outperformed the considerations of two other theorists mentioned above – Bulgakov and Struve. We outline here the essential features of their views.

Bulgakov (the author of a work on the significance of markets to capitalist production) derived from the Marxian reproduction schemes a view that, in the conditions of capitalism, consumption constitutes merely a secondary moment in the circulation of capital, because the scale of production is defined not by the extent of social needs but by the size of capital. Production growth is not accompanied by consumption growth. Between production and consumption exists an antagonism, which is manifest in the fact that persistent constant capital (*c*) expansion and relative variable capital (*v*) contraction constitute the principle of capitalist production. Nevertheless, it does not create any fundamental difficulties in expanding capitalist production.

A different explanation of the value-added realization problem was put forward by Peter Struve, who, similarly to Malthus, referred to a 'third party'. In terms of Russia's perspectives, he argued that, due to its large geographical area and population, Russia could do without foreign markets, and that in this sense, her fate would be similar to that of the United States. In Russia, markets could develop infinitely and capitalism had better prospects than in other capitalist countries. His statement 'let's admit our lack of manners and learn from capitalism' triggered a great deal of outrage among the modernistic Russian intelligentsia. Furthermore, Struve argued that Karl Marx and Friedrich List complement each other since Russia's economic development follows the formulas of both Marx and List.

Proclaiming the decisive victory of the Russian legal Marxists in the dispute with the Narodniks, Rosa Luxemburg added that 'in the heat of battle, all three – Struve, Bulgakov and Tugan-Baranovsky – overstated their case. The question was whether capitalism in general, and Russian capitalism in particular, is capable of development; these Marxists, however, proved this capacity to the extent of even offering theoretical

proof that capitalism can go on for ever' (p. 304). This opinion applies predominantly to Struve.

3

Vladimir Lenin began his writing career in 1893 and it was in the period prior to the new century that he wrote his most extensive economic works: 'New economic developments in peasant life' (1893), 'On the so-called market question' (1893), 'The economic content of narodism and the criticism of it in Mr. Struve's book (The reflection of Marxism in bourgeois literature)' (1894), 'A characterisation of economic romanticism (Sismondi and our native Sismondists)' (1897), *The development of capitalism in Russia* (1899) and many other minor ones. These works constitute the first three volumes of Lenin's *Collected Works*. Hence, it can be said that Lenin began his writing career as an economist. All the aforementioned studies were directed primarily against the economic doctrine of the Narodniks. Nonetheless, by this time, the second work mentioned above was directed both against the Narodniks and against 'legal' Marxism. Already in 1894 Lenin pointed to theses borrowed from (or related to) bourgeois economics, often from its vulgar strand (e.g. Malthus) in the anti-Narodnik arguments of Struve.

Along with a thorough analysis of the problems related to Russian reality at that time (which we in fact ignore here), all these works contain a significant vein of general theoretical problems. They are all based on Marxian economic theory, particularly on its distinction of three components (c , v , m) of total value added, as well as on the division of social production into two major departments and the equations formulated by Marx describing the proportions of exchange between these departments.

In 1893 the manuscript of 'On the so-called market question' appeared (in print only 44 years later). This is the text of a paper presented at a meeting of the group of Petersburgian Marxists as a supplement to the paper of L.B. Krasin (later a Soviet activist). From Lenin's associated paper we find out that Krasin's starting point was Marxian reproduction schemes, on the basis of which he proved that capitalist development is largely independent of consumption markets, since the decisive and growing role in capitalism was played by the market for means of production. Lenin took up the same range of issues, engaging in polemics not only with the Narodniks but also with some of Krasin's propositions. Lenin's general conclusions on the issue of markets and the development of capitalism are as follows.

In capitalist conditions, production of the means of production grows quicker than production of the means of consumption.²³ However, the concept of the market cannot be absolutely separated from the concept of the social division of labour. A market 'arises where, and to the extent that, the social division of labour and commodity production appear ... the limits of the development of the market, in capitalist society, are set by the limits of the specialisation of social labour. But this specialisation, by its very nature is as infinite as technical developments'.²⁴ From this follows that the issue of market is a 'so-called' question, an apparent question.

The issue of contradictions between production and the conditions of realization in capitalism is barely perceptible in this work, written still before the publication of the third volume of *Capital*, which itself is unusually important for understanding the problem of crises and the basic contradictions of the capitalist production. It was perhaps for this reason that Lenin did not publish the paper.

The value of this first work of the 23-year-old Lenin becomes more pronounced in the present day not because of the general theses contained in the paper but owing to the original and pioneering way of reasoning. As it turns out, merit was attributed to Tugan-Baranovsky for drawing attention to the theoretical significance of the Marxian expanded reproduction model for the issue of realization and crises in capitalist conditions only because Tugan's work was actually published, while other earlier works, primarily Lenin's paper, remained unknown for a long time.

Lenin not only emphasized very early on the theoretical value of reproduction schemes. He also attempted to expand them in some important points. He introduced into these schemes – 20 years earlier than Luxemburg and Bauer did – the growing organic composition of capital, thoroughly analysing the impact of technical progress (more precisely one of the types of technical progress generalized at that time) on the changes in proportions and the shaping of various components of total demand. Assuming the capital-intensive type of technical progress dominant at that time, Lenin must have concluded that the more rapid growth of department I relative to department II was a stable tendency of capitalist production.

Furthermore, an interesting solution is the scheme of the development of the market contained in this work.²⁵ This scheme depends on two processes: the transformation of the natural economy into commodity one and then, of the commodity economy into a capitalist one. In this scheme, the conditions of simple reproduction, constant labour

productivity, given population, etc. were assumed. The broad conclusion was reduced to the statement that enrichment of the few and impoverishment of masses were inevitable consequences of competition.

The precision of the economic terms used in this work is striking. Among them, for instance, is the description of a commodity economy and capitalism known from many popularizing works: 'By commodity production is meant an organisation of social economy in which goods are produced by separate, isolated producers, each specialising in the making of some one product, so that to satisfy the needs of society it is necessary to buy and sell products (which, therefore, become commodities) in the market. By capitalism is meant that stage of the development of commodity production at which not only the products of human labour, but human labour-power itself becomes a commodity'.²⁶

It would be interesting to analyse the further development of Lenin's theoretical and economic views, e.g. to study the impact that his reading of the third volume of *Capital* exerted on the Leninist theory of realization and reproduction. Not having the possibility of taking this issue up in detail, we would like to emphasize some undisputed characteristic features of this development:

1. The two aforementioned theses on the development of capitalist market as a function of the social division of labour (specialisation) and on the more rapid growth of department I relative to department II became a starting point and a theoretical basis of both his later polemic with the Narodniks and his independent and painstaking monographic research. These theses (in particular the issue of specialization) constitute the theoretical basis and a research directive of Lenin's classic work *The Development of Capitalism in Russia*. The publication bearing this title (its sub-title is: *The Process of the Formation of a Home Market for Large-Scale Industry*) disputing with the Narodniks using statistical data in this sense realizes the intentions developed already in Lenin's unpublished paper. The theoretical supplement to this dispute is provided in his 'Characterisation of Economic Romanticism'.

That is also the keynote of a few other minor works of Lenin: 'A Note on the Question of the Market Theory', 'Once More on the Theory of Organisation' and 'Reply to Mr. P. Nezhdanov'.

2. Lenin's later works are, in their content, a continuation of the 1893 joint paper. Nevertheless, the form of exposition of the issue of realization is changed. It is puzzling that in none of the later works did Lenin repeat the Marxian reproduction schemes, let alone attempt

to expand them by introducing technical progress, although he frequently returned to the ideas contained in these schemes, including the principle of the rising organic composition of capital. Not having published the paper, Lenin could not assume that his reader had already known these schemes in his interpretation. In any case he did not adopt this assumption, referring readers willing to familiarize themselves with the Marxian theory of realization to *Capital* or to the works of Bulgakov and other legal Marxists.²⁷ The fact that the paper was not published is itself baffling. Modern authors hold this first work of Lenin in high regard, precisely because it extends Marxian reproduction schemes by considering technical progress and undertaking the division of production demand into the production of the means of production, for the sake of their further generation, and the production of the means of production devoted to consumption goods manufacture.²⁸

3. In contrast with the unpublished paper, a new strand of argument appears in the later works. Later on, Lenin emphasized both the issue of disproportionality and the question of under-consumption ignored in the joint paper with Krasin. Only together do these two make coherent (two aspects) of the basic contradiction of capitalism, the contradiction between social production and private appropriation. Lenin repeatedly highlighted the contradiction between production and consumption, induced *inter alia* by Struve's accusation that Lenin ascribed a Saysian theory of realization to Marx.²⁹ This was, perhaps, a theoretical expression of the increasing recognition of the retrospective social evolution found not only in Struve, whom Lenin had criticized earlier, but also in Tugan-Baranovsky, Bulgakov and others.

Nevertheless, what without a doubt constituted a decisive theoretical impulse inducing Lenin to further develop the theory of realisation was his reading of the third volume of *Capital* and the need to confront Tugan-Baranovsky, Bulgakov and others who argued that the second and third volume of *Capital* were contradictory. Formulation of the disproportionality and underconsumption as the basic contradiction of capitalism was the most abstract manifestation of his view on the fundamental unity and continuity of Marx's reasoning contained in these parts of *Capital*.

However, while Lenin repeatedly highlighted the typical contradiction of capitalism between production and accumulation, or between production and realization, he took up this issue only incidentally. This issue did not become (as did the problem of specialization and

the thesis on the division of social production into two departments) a direction for broader monographic research. The result was a persistent apprehension that Lenin allegedly advocated a theory of realization similar to that of Say. This accusation was put forward not only by Struve, but also by Plekhanov³⁰ and Luxemburg.

4. Misunderstandings might have been also triggered by the way in which Lenin interpreted the contradiction between production and consumption under capitalism, in particular the unusually fierce association of this contradiction with the aforementioned principle of the more rapid growth of the department producing the means of production. Lenin repeatedly emphasized that 'developing capitalist production creates its own market mainly for means of production and not for articles of consumption',³¹ agreeing in this matter with both Bulgakov and Tugan-Baranovsky.

Some statements of Lenin might lead to a belief that in his view the contradiction between production and consumption translates solely into rapid development of the market for the means of production, with a simultaneous sluggish growth of the consumption goods market, from which it by no means follows that total demand (and also production demand) tends to lag behind production under capitalism. 'Only this law [of a more rapid growth of department I – T.K.] – wrote Lenin – will explain one of the most profound contradictions of capitalism: the growth of the national wealth proceeds with tremendous rapidity, while the growth of national consumption proceeds (if at all) very slowly.'³²

Attributing excess significance to the tendency for the more rapid growth of the department producing the means of production is completely understandable from a historical perspective due to the situation in which Russia found itself at that time, entering the path of industrialization. However, it did not facilitate a complete understanding of the importance of the issue of total demand (and hence markets) for the general theory of capitalist development, and particularly for advanced capitalism.

4

We have completed the brief presentation of the Russian 'rounds' in the dispute on the topic of realization in capitalism. Nonetheless, for a better understanding of the issue discussed above it is worthwhile to mention two Western reactions to the Russian dispute (to Tugan-Baranovsky's book translated into German).

It is very interesting that the first denial of the law of a more rapid growth in department I than in II emerged precisely among theorists from the most advanced countries in the world at that time – Germany and the United States, and almost exactly in the years marking the beginning of a new monopoly era of capitalism, the era of advanced capitalism. These theorists were Karl Kautsky in Germany and Louis Boudin, a Marxist of Russian descent living in the USA.

Here, it is primarily worth quoting Karl Kautsky:

It is correct that with a progressive division of labour, there will be comparatively fewer and fewer factories etc. For the production of goods directed for personal consumption, together with a relative increase in the number of those which supply both the former and one another with tools, machines, raw materials, transport facilities and so on. ... With international division of labour it will happen that some countries – the old industrial countries – can only slowly expand their production for personal consumption, while making large strides in their production of producer goods which is much more decisive for the heartbeat of economic life than the production of consumer goods. From the point of view of the nation concerned, we might easily form the opinion that producer goods can be turned out on a constantly rising scale with a more rapid rate of increase than in the production of consumer goods, and that their production is not bound up with that of the latter.³³

As can be seen, this argumentation is rather empirical and perhaps interesting due to negation of the 'law' commonly attributed to Marx at that time and not due to its theoretical content. Besides, it might have simply been a description of Germany's situation at that time, whose industry to some extent specialized in chemicals, then still oriented towards further industrial 'consumption', and in heavy industry – metallurgy. In those days, Britain was the main exporter of textiles. Nevertheless, this description was accurate although not in the sense that a more rapid growth in department I was characteristic of advanced countries, or on the contrary, of countries entering the path of industrialization, but in the sense of denying the existence of any stable, fixed formula.

The view of these two socialist authors on the accuracy of growth in department I and department II is interesting from the point of view of the theoretical consequences for the issue of crises and capitalist tendency towards chronic depressions. Both Boudin and Kautsky were at

the time supporters of the under-consumption theory (Kautsky would later change his position, which we do not examine here).

Here is the most important fragment of Kautsky's line of argument:

With the capitalists growing richer, and the workers they exploit increasing in numbers, they constitute between them a market for the consumer goods produced by capitalist big industry which expands continually, yet it does not grow as rapidly as the accumulation of capital and the productivity of labour, and must therefore remain inadequate. An additional market is required for these consumer goods, a market outside their own province, among those occupational groups and nations whose mode of production is not yet capitalistic. This market is found and also widens increasingly, but the expansion is again too slow, since the additional market is not nearly so elastic and capable of expansion as the capitalist productive process. As soon as capitalist production has developed to the big industry stage it is capable of expanding by leaps and bounds so as soon to out-distance all expansions of the market. Every period of prosperity subsequent to a considerable extension of the market is thus from the outset doomed to an early end – the inevitable crisis. This, in brief, is the theory of crises established by Marx, and, as far as we can see, generally accepted by the 'orthodox' Marxists³⁴

Kautsky connected his theory of chronic depression and capitalist demise with the tendency to exhaustion of external markets. A similar line of thought was developed by Boudin. Such presentation of the issue of crises and the role of external markets by authors denying the more rapid growth in the first department in comparison with growth in the second department – seems rather logical. These authors could not be content with the view that contradiction between production and consumption was solved by capitalism developing its own internal market, a rapidly growing market for the means of production, at the cost of the market for the means of consumption. Hence, they had to look for the solution outside the market for the means of production.

3

Aggregate Demand and the Accumulation of Capital

1

Rosa Luxemburg's work came to be treated as one devoted primarily to the theoretical analysis of the issue of crises. In the more recent literature this view is most clearly expressed by Maurice Dobb, according to whom the *Accumulation of Capital* is simultaneously 'a work on the theory of crises and an initial outline of the theory of imperialism'.¹

Paul M. Sweezy expressed a similar view in the book *Theory of Capitalist Development*, which should be known to the Polish reader, by situating the discussion of Rosa Luxemburg's theory in the section on crises and depressions (and not, for example, in Part Two entitled 'The Accumulation Process').² In his view, this theory is a historical discourse related to concepts deriving crises from the phenomenon of underconsumption characterizing capitalism.

It seems that such an interpretation of Rosa Luxemburg's work could find some support in *Anti-Critique* but not in her main work. The latter concerns the issue of crises only to the extent to which certain conclusions for the theory of crises have to stem from the general theory of capitalist development.³

The statement that Rosa Luxemburg's *Accumulation* concerns primarily the theory of crises is not only unjustified but even paradoxical. The sharp distinction between the general theory of capitalist development (dynamics) and the issue of the business cycle was one of the assumptions highlighted most by the author. In this aspect her declarations were categorical.

Describing two attempts at a systematic presentation of the problem of reproduction (of Quesnay and Marx), she added, for instance: 'In the interim, the problem was ever with bourgeois economics. Yet bourgeois

economists have never been fully aware of this problem in its pure aspects, detached from related and intersecting minor problems; they have never been able to formulate it precisely, let alone solve it' (p. 3).

Depicting the issue of reproduction in its pure form meant precisely, according to her, omitting periodic changes of business cycles and crises, which, on the one hand, are the most obvious feature of capitalism but, on the other, constitute merely a form of the movement of capitalist production, rather than its core. Such an approach was regarded by Rosa Luxemburg as the only acceptable scientific research method (Cf. pp. 7–8). Classical political economy proceeded in this way from Smith to Marx. In contrast, 'the approach of vulgar economics always attempts to solve the problem of value by reference to fluctuations in demand and supply' (p. 8). The scientific approach to the problem of value begins precisely where demand and supply cease to operate. The same applies to the issue of the reproduction of aggregate capital. Just as in the analysis of value one has to assume demand and supply equilibrium, so, in analysing the laws of reproduction, a certain average, obtained as a mean of all the phases of a cycle, needs to be assumed. In her view, this average is not a mere theoretical construct, but also a real, objectively existing reality in the sense that despite swings of the business cycles, despite crises, the needs of the society are more or less satisfied, productive forces develop, enlarged reproduction takes place indirectly:

Here the real question begins. The attempt to solve the problem of reproduction in terms of the periodical character of crises is fundamentally a device of vulgar economics, just like the attempt to solve the problem of value in terms of fluctuations in demand and supply. Nevertheless, we shall see in the course of our observations that as soon as economic theory gets an inkling of the problem of reproduction, as soon as it has at least started guessing at the problem, it reveals a persistent tendency suddenly to transform the problem of reproduction into the problem of crises, thus barring its own way to the solution of the question. (Ibid.)

As if predicting that her theory of reproduction and accumulation would be reduced to a theory of crises in the interpretation of her critics, Rosa Luxemburg explicitly observed that, while writing about the capitalist reproduction she would '*always* understand by this term a mean volume of productivity which is an average taken over the various phases of a cycle' (p. 9 – emphasis of T.K.), and she never relaxed this model assumption. In the light of this assumption as well as in the light of

the actual content of *Accumulation*, a more justifiable accusation would be that the author deemed it possible to depict the theory of capitalist development while completely ignoring the issue of the cyclical nature of capitalist production,⁴ rather than presenting her book as a study of the theory of crises.

It is extremely important to refute the common opinion that Rosa Luxemburg's book is not about the theory of crises, since the acceptance of such an opinion was an ideal precondition for the critics to present the whole theory as nonsense. Of course, this opinion decided about the choice of fragments somehow related to the theory of crises. Hence it is clear that the allegedly main direction of the author's argument manufactured by the critics was bound to seem erroneous in its conception, naive, etc. Treating this opinion as an astonishing misconception, it is worth analysing its origins. One of the causes was indicated by the author herself, writing about a persistent tendency of political economy (not only bourgeois and not only vulgar) involuntarily to transform the problem of reproduction into the problem of crises. Joan Robinson drew attention to another cause of a less fundamental nature, arguing that Rosa Luxemburg's book is 'one of considerable difficulty rendered well-nigh insurmountable by the Marxist terminology in which it is expressed'.⁵ Owing to the innovative contents, relative to the traditional Marxist literature, and presented using the traditional terminology, this book was and is difficult even for economists with a Marxian background. Rosa Luxemburg's book could not be understood particularly by those who, for a long time, were suspicious and in opposition to any changes of the theory of insufficient aggregate demand. The difficulty in understanding the fundamental work of Rosa Luxemburg reinforces the understandable tendency to familiarize oneself with its content through *Anti-Critique*, whose first parts contain a concise, rather popularly expressed summary of the earlier work. However, *Anti-Critique* also shows a certain pronounced shift of the subject-matter relative to the original work coming from the most abstract, general, issues to more specific and detailed ones, being thereby closer to the surface of economic life under capitalism. *Anti-Critique* was written not for 'experts' but for the reading public and that is why the author tried to present the problem 'in its simplest form' (*Anti-Critique*, p. 49).⁶

In addition, already in the first phase of debates around the *Accumulation*, some critics managed to trivialize the problems contained in it and bring it from the deepest regions of abstraction to a surface of the external forms in which the capitalist production relations appear. They managed, for example, to replace the general problem of the reproduction of aggregate

social capital with the issue of crises. Refuting the arguments of the critics point after point, Rosa Luxemburg had to fight a battle dictated by her opponents, i.e. focus more on the issue of crises. But even here she did not give any systematic view on the matter. This time she also declared at the beginning of her argument that she had taken up the essence of the problem of reproduction, putting aside fluctuations of prices and crises, i.e. the specific methods through which capitalism regulated relations between aggregate capitalist production and social needs. However, she stood by this only in the first part of *Anti-Critique* containing a summary of the main thoughts of the *Accumulation of Capital*. Meanwhile, in the later parts of *Anti-Critique* the issue of business cycle fluctuations became imperceptibly one of the main points of the argument.

The misconception considered here is a deep-rooted one. According to many economists, the specific interpretation of Marxian reproduction schemes led to a fundamental negation, the tendency towards insufficient aggregate demand in capitalist conditions that was incidentally taken up by Marx in the first and third volume of *Capital*.⁷ The issue of capitalist reproduction was reduced to the conditions of renewal and expansion of the means of production and the workforce in appropriate proportions. It was obstinately argued that there are no problems with the realization of social product. As was explained, the whole issue emerged when one approached the problem of accumulation with set assumptions about simple reproduction, i.e. when one did not want to acknowledge that the actual capital accumulation meant the growth of both constant and variable capital. Even Sweezy, who accomplished so much in rehabilitating the under-consumption problem, summarized Rosa Luxemburg's reproduction theory in exactly this way,⁸ not noticing that the main issue which she attempted to solve lay outside the question of technical and accounting proportions; not noticing that she was mainly and predominantly concerned with the transition from general reproduction theory to the theory of capitalist reproduction and that she attempted to capture specific laws of capitalist reproduction.

2

In the *Accumulation of Capital* we often encounter a question on the origins of capital accumulation. This question led the author to analyse two different issues. The first one – whose analysis is postponed until one of the later chapters – amounts to the existence of technical

conditions favourable to accumulation (pp. 103–4). In the author's opinion, this issue plays a changing and always secondary part.

On the other hand, the primary problem is as follows: 'A further condition is required to ensure that accumulation can in fact proceed and production expand: the effective demand for commodities must also increase. Where is this continually increasing demand to come from, which in Marx's diagram forms the basis of reproduction on an ever rising scale?' (p. 104). Here, the problem amounts to the dependence of expanding production on increasing market opportunities.

In order to depict faithfully how she saw the problem analysed, we quote a longer fragment from the last part of Rosa Luxemburg's work. Having demonstrated four subsequent phases of enlarged reproduction (on the basis of the so-called second scheme of Marx), she wrote:

It cannot be discovered from the assumptions of Marx's diagram for whose sake production is progressively expanded. Admittedly, production and consumption increase simultaneously in a society. The consumption of the capitalists increases ... the consumption of the workers increases as well; the variable capital increasing year after year in both departments precisely indicates this growth in terms of value. And yet, the growing consumption of the capitalists can certainly not be regarded as the ultimate purpose of accumulation; on the contrary, there is no accumulation inasmuch as this consumption takes place and increases; personal consumption of the capitalists must be regarded as simple reproduction. Rather, the question is: if, and in so far as, the capitalists do not themselves consume their products but '*practise abstinence*', i.e. accumulate, for whose sake do they produce? Even less can the maintenance of an ever larger army of workers be the ultimate purpose of continuous accumulation of capital. From the capitalist's point of view, the consumption of the workers is a consequence of accumulation, it is never its object or its condition, unless the principles (foundations) of capitalist production are to be turned upside down. And in any case, the workers can only consume that part of the product which corresponds to the variable capital, not a jot more. Who, then, realises the permanently increasing surplus value? The diagram answers: the capitalists themselves and they alone. And what do they do with this increasing surplus value? The diagram replies: They use it for an ever greater expansion of their production. These capitalists are thus fanatical supporters of an expansion of production for production's sake. They see to it that ever more machines are built for the sake of building – with their help – ever

more new machines. Yet the upshot of all this is not accumulation of capital but an increasing production of producer goods to no purpose whatever. Indeed, one must be as reckless as Tugan Baranovski, and rejoice as much in paradoxical statements, to assume that this untiring merry-go-round in thin air could be a faithful reflection in theory of capitalist reality, a true deduction from Marx's doctrine' (pp. 314–15, emphasis by T.K.).⁹

At the present stage of the analysis it is still too early for an attempt to answer precisely what Rosa Luxemburg's meant in the statement that neither capitalists nor workers are sufficient as buyers of persistently increasing production. Nonetheless, behind the above argument is an important question, which is much broader than her critics usually tackle. From the quotation above it can be concluded that the issue does not amount to a concern for who will consume the produced surplus value (surplus product) and to whom it will be sold. The essence of the problem is contained in the question – whether capitalist and workers' consumption, and the expansion of production of the means of production, constitute a sufficient incentive to expand production. Hence, it is about both the possibility of transforming surplus value into money (i.e. the realization of surplus value) and transforming surplus value (savings) into real productive capital, into actual accumulation. The realization of surplus value emerges as an incentive for accumulation and expansion of production. The existence of a sufficient number of recipients of the increasing mass of products at this time, conditions of actual sales would, in this view, constitute a basis for capitalists to make decisions about further expansion of production, i.e. to make investment decisions. The question of the recipients of additional product, of expanding demand, is subordinate to a broader issue of objectives and incentives of accumulation, i.e. the driving forces giving capitalism its dynamic character.

Hence, if Rosa Luxemburg's critics dispose of the burning question formulated by the author about additional and increasing demand, which allows accumulation, and then respond by reference to Marx's reproduction scheme, from which it follows that increasing demand is provided by capitalists (growth in constant capital and individual consumption of capitalists) and workers (growth in variable capital), then in this case they facilitate their task by simply ignoring the issue which she attempted to solve. Rosa Luxemburg recognized all the factors of expanding demand. She did not deny the role of production growth in the expansion of markets in the least. However, she would regard

such an explanation of the issue of capital accumulation as sufficient if capitalists were naturally accumulation fanatics. Had the issue of the scale and pace of accumulation been explained just by the sources of accumulation in the form of produced profit then capitalist decisions would have borne no significance. Using imprecise formulations, the critics presented her theory in a trivialized form, although not entirely without a reason. Nevertheless, it seems that there are much stronger reasons to argue that Rosa Luxemburg was right to attack the conviction popular at that time, namely that enlarged reproduction is inseparable from the capitalist economy, that capitalism automatically ensures production growth. Although it might come as a surprise, Rosa Luxemburg fought against the theoretical stand which currently preoccupies such conservative economists as Harrod and the like.¹⁰

3

There are reasons to suspect that at the root of the difficulty described by Rosa Luxemburg was the issue of factors safeguarding the equilibrium between savings and investment. Although this was not expressed directly or in a precise form, she was clearly concerned with this issue. We refer to her own formulations:

In the transition from production to reproduction, the surplus product is thus subjected to two metamorphoses: first it casts off its use-form and then it assumes a natural form which is fit for the purpose of accumulation. The point here is not that the different cycles of production are counted off in units of years. It would be just as well to take the month; for that matter, the successive transformation of individual portions of the surplus value in Departments I and II may even intersect in time. Series of years here do not mean units of time but really intend the sequence of economic transformations. What matters is that this sequence must be observed if accumulation is to keep its capitalist character, whether it extends over a longer or a shorter period of time. (p. 111)

Unfortunately, this is not a clear passage. For an unknown reason, the time factor was introduced. Was it in order to highlight that for a normal capitalist accumulation the sum saved by capitalists ultimately (i.e. irrespective of the possible time, e.g. monthly, gaps) needs to equate the amount invested? Is it not too weak a foundation for such a 'modernistic' explanation of Luxemburg's argument? Unfortunately,

a more straightforward and clear expression of this thought cannot be found in *Accumulation*. The only exception is one statement in *Anti-Critique*. In an ironic comment on one critic's idea about the automatic equilibrium of accumulation and savings, she wrote: 'each year the capitalists expand by exactly as much as they have "saved up" in surplus value; they are their own consumers and thus the market does not bother them. This *assumption* is the starting-point of the whole "proof"' (*Anti-Critique*, p. 68). The following interpretation seems the most appropriate. The first part of the main sentence – read in a reverse manner so as to remove the irony, means: do capitalists extend production by the amount exactly equal to the surplus value they saved, i.e. the amount directed to accumulation – is still a major question. Hence, capitalists cannot be content that they themselves will buy the produced goods from one another, thus that the market is provided in advance. This is too weak an incentive for capitalists to extend production. Consequently, it is a fundamental mistake to begin the analysis of accumulation by assuming what remains to be proven.

The sense of the words about market problems, irrespective of whether they refer to difficulties in the market for an already produced surplus, or to the prospective market for enterprises increasing the scale of production, amounts to saying, that current market difficulties become the basis for making predictions about the future markets. These, in turn, influence new undertaking. Only in this instance could one make sense out of Rosa Luxemburg's words about the incentives 'capitalists have to make use of technological progress and to invest ever larger sums in constant capital' (*Anti-Critique*, p. 109) and about 'the impelling force' (*Anti-Critique*, p. 51).

Unfortunately, in various other places in *Accumulation* she analyses the issue of surplus value realization as a separate problem, without any clear connection with the objective of capitalist production and investment incentives. For instance, her dispute with Bauer can be understood in two ways. She wrote ironically: 'If the capitalists want to enlarge production by as much as they possess in surplus capital, then all they have to do is put this surplus capital into their own production ... – then they are left with no unsaleable commodity surplus' (*Anti-Critique*, p. 67). Without irony, this sentence is consistent with the interpretation suggested above. However, Rosa Luxemburg argued against such reasoning in an ambiguous way: 'But then the question arose as to whether the capitalists, who of course always "want" to accumulate, can also do so, that is, whether they can find a continually expanding market for expanded production, and where such a market is to be found?' (*Anti-Critique*, p. 67).

To deny the existence of contradictions between the above statement and those quoted before it would be necessary to interpret Rosa Luxemburg's words – 'want' and 'can' in the following way: in conditions where new investments 'promise' an adequate rate of return, where there are sufficient foundations to suspect that enlarged reproduction will bring adequately increased profits, capitalists always 'want' to accumulate. However, can they do so with actual profitability, defined usually by the 'continually expanding market for expanded production' and where do capitalists find these markets (we will discuss this later), or is the market within 'pure capitalism' sufficient for them? Only here does the problem begin, in relation to Marx's schemes, and manifest in the accusation that the assumption of progressively enlarged reproduction is understandable in itself, without analysis of the conditions under which the representative capitalist is likely to do this or under which savings turn into actual accumulation. 'In order to accumulate, capital needs a steadily increasing outlet' (*Anti-Critique*, p. 107). That was the essential idea of Rosa Luxemburg's theory of realization; however, her numerous opponents were satisfied with the statement: accumulation creates its own, adequately expanding market.

Rosa Luxemburg understood very well the respective dependence of both departments of production in the accumulation process: that accumulation in department II requires an adequate amount of additional means of production, while accumulation in department I assumes the surplus amount. However, she argued persistently and repeatedly that:

It does not follow, however, that so long as both these conditions are observed, accumulation in both departments is bound, as Marx's diagram makes it appear, to go on automatically year after year. The conditions of accumulation we have enumerated are no more than those without which there can be no accumulation. *There may even be* a desire to accumulate in both departments, yet the desire to accumulate plus the technical prerequisites of accumulation is not enough in a capitalist economy of commodity production. A further condition is required to ensure that accumulation can in fact proceed and production expand: the effective demand for commodities must also increase. (p. 104, emphasis by T.K.)

Rosa Luxemburg recognizes the part played in expanded reproduction by increasing production of the means of production and the growth in means of consumption. But she argues that this form of expanding demand is not yet capable of transforming the abstract desire to

accumulate into actual accumulation. Thus, the author of *Accumulation* regarded very sceptically the capitalists' inclination to accumulate. While her critics referred to those statements of Marx, according to which the tendency to invest went without saying, being treated as an inherent feature of personified capital ('Accumulate, accumulate! That is Moses and the prophets!'), Rosa Luxemburg referred to another strand of Marx's thought, not limiting herself to a wary 'may even be'. However, it seems that this, rather incidentally mentioned, 'may even be' most abruptly marks the differences of opinion on the issue of accumulation between Rosa Luxemburg and her Marxist opponents. She argued that 'the conditions of direct exploitation and those of the realization of surplus-value are not identical. They are separated logically as well as by time and space' (p. 324).

This notion finds its most concise and emphatic depiction in the following abridged dialogue of Rosa Luxemburg with the experts. 'The answer [to her thesis that production for the sake of production is absurd from the capitalist point of view – T.K.] is: But that is by no means absurd, because that *is* the way profit is accumulated! And how do you know that, oh experts? Now, it is shown ... in the mathematical models that profit is in fact accumulated. In those models ... in which money capital is entirely neglected' [*italics in the original*] (*Anti-Critique*, p. 74).

If one examines why Rosa Luxemburg did not succeed in solving this issue, or at least in presenting it more clearly, it has to be concluded that she understood the reification of capitalist relations of production too extremely and traditionally. To openly ascribe significance to the subjective investment motive of capitalism would be, in her opinion, in conflict with the foundations of historical materialism, emphasizing the objective character of economic processes. Such apprehensions can explain the strong emphasis in her work on the problem of the natural-material proportions of economic growth under capitalism as well as many contradictions in her reasoning. At times, the first part of a sentence conforms to the previously mentioned thesis of the difficulty in maintaining equilibrium between the realization and accumulation of surplus value, due to the capitalist investment motive factor, while the second part depicts this issue in an excessively reified manner.¹¹

Even more strikingly, from the point of view of the analysis of capital accumulation, Rosa Luxemburg's argument is rendered ineffective by the absence of any examination of the role of the rate of profit (and the rate of interest), the role of current and expected profitability in

making investment decisions. It is hard to believe that the nearest she approached this issue (of profitability) was in an abstract example, whose aim was not to complement her own theoretical argument but to ridicule the orthodox cult of formulas thanks to which it was proved that there is no problem of accumulation and reproduction, since the reproduction schemes indicated who purchased the produce. Ridiculing this way of thinking, she wrote with insurmountable irony:

But let us take a dull example. A costing is produced for the planned construction of a railway from town X to town Y; precise calculations are made as to how large the annual passenger and goods traffic has to be so that, apart from depreciation, running operational costs and the normal 'reserves', a 'reasonable' dividend can be distributed, shall we say first 5 per cent, then 8 per cent. Naturally, the central question for the founders of the railway company is whether they can expect the passenger and goods traffic on the proposed stretch which would ensure the profitability calculated in the costing. Clearly, the answer to this can only come from precise and basic facts about the previous traffic on the stretch, its importance for commerce and industry, the population growth of the adjacent towns and villages and other facts concerning economic and social relations. Now, what would one say to a man who exclaimed: You ask, where will the profit of the line come from? I beg your pardon, but that is down in black and white in the costing. You can read there that it comes from the passenger and goods traffic, and that the takings from this will provide first for a 5 per cent, then for an 8 per cent dividend. If you can't see that, gentlemen, then you have simply completely misunderstood the nature, aim and significance of the costing. In sober circles one would probably indicate, with a shrug of one's shoulders towards the know-all, that he belonged in the lunatic asylum or the nursery. But among the official custodians of Marxism such know-alls form the 'supreme court' of 'experts'.¹² (*Anti-Critique*, pp. 69–70)

This example can be generalized into the following argument. Capitalists disposing of a certain amount of surplus value (the part of surplus value dedicated to accumulation) make investment decisions on the basis of a certain forecast on the prospective rate of profit, the forecast of profitability. In this calculation, what matters are not their wishes but the actual conditions which could secure the expected profitability. In order to answer this question, exact data on the profitability of past investment and various other conditions defining profitability

are required. In a similar way to the founders of a railway company, capitalists invest not only on the basis of their own 'costing', assuming at least the normal rate of profit, but also on the basis of the analysis and expectations of the actual course of economic events. The decisive factor influencing investment decisions are expectations of a growing market. What conditions are needed to transform the 'saved' surplus value into functional capital – this was the problem which drew Rosa Luxemburg's attention. However, is not such interpretation contradicted by the author's comment on the above railway investment example? 'To accumulate capital does not mean to produce higher and higher mountains of commodities, but to convert more and more commodities into money capital. Between the accumulation of surplus value there always lies a decisive leap, the *salto mortale* of commodity production, as Marx calls it: selling for money ... Now, the accumulation of profit as money profit is just such a specific and quite essential characteristic of capitalist production, and is as valid for the class as it is for the individual employer' (*Anti-Critique*, pp. 71–2). Hence, this time, Rosa Luxemburg emphasizes the difficulties in the phase of the movement of circulating capital, in which capital is supposed to become 'liquid', in conditions of realization of already produced goods. This often happens when the author attempts to depict the question of the role of money capital in the turnover of capitalist production more precisely and specifically, reducing the whole issue to the transformation of commodity form of capital into its monetary form, as if this *salto mortale* was almost exclusively 'selling for money', enabling 'the accumulation of profit as money profit'. But what happens afterwards with this profit accumulated in money form? How does this second *salto mortale* – transformation of profit into functional capital – occur? In Rosa Luxemburg, this issue often seems confusing and suppressed by the traditional problem of over-production. Nonetheless, careful reading of her work leads to the conviction that she understood that the first metamorphosis – transformation of the commodity into money – defines the second one, repeated transformation of money into production capital. She understood that the more difficult it is for a capitalist to undertake the first metamorphosis, the more difficult it is and the larger the delay and hesitation with which the capitalist decides to dedicate the accumulated profit (in monetary form) to expand production. This confusion arose, among other reasons, because Rosa Luxemburg herself committed what she so fiercely criticized in political economy at that time: confusion of the issue of the long-term growth (as we have seen, that is how she treated the issue of aggregate capital reproduction)

with the problem of crises. Her concept of growth was still too strongly influenced by phenomena occurring during a crisis. Precisely with crisis in mind Marx talked about the first *salto mortale*, adding that 'just as the stag cries out for fresh water', the capitalist cries out for money during the crisis.

4

Before we move on, we need to look at Rosa Luxemburg's depiction of the problem of accumulation from a methodological point of view. From everything we have written about above, it follows that she restated the issue of the objective of capitalist accumulation, signalling doubts on the Marxian enlarged reproduction scheme precisely from this point of view. The question arises is why Rosa Luxemburg was not satisfied with the explanation of the aim of capitalist accumulation found in the other volumes of *Capital*, particularly in the first one, where Marx analyses the maximization of surplus value (profit) as the real engine and driving force of capitalist production. The evidence that she did not regard this explanation of Marx as necessarily erroneous or invalid is her statement, found already in the first chapter of her work. Here she says that, in contrast to other production, the consumption of society does not constitute a motive for capitalist production, while the 'driving force' which sets it in motion, the 'incentive' for enlarged reproduction is striving towards surplus value maximization. This striving becomes a coercive law for each capitalist.¹³

Furthermore, the fulfilment of the technical and economic conditions of accumulation also depends on circumstances independent of the will of an individual capitalist. This primarily concerns the expansion of markets, in the face of which a capitalist is utterly powerless. These conditions are a manifestation of the deep contradiction of capitalist production, but represent particular difficulties in the process of enlarged reproduction, when the regularity of movements is analysed as a continuous process, when individual circles of a growing production spiral come together. Hence, when the conditions and the process of enlarged accumulation are analysed then, in the view of the author of *Accumulation*: 'we must inquire in a general way how it is possible for every individual capitalist to find on the market the means of production and the labour he requires for the purpose of realising the commodities he has produced, although there exists no social control whatever, no plan to harmonise production and demand' (pp. 17–18). The answer to this question is to be found in Marxian

theory of competition and business cycle. What requires explanation is the problem: 'How is it possible that the unplanned supply in the market for labour and means of production, and the unplanned and incalculable changes in demand nevertheless provide adequate quantities and qualities of means of production, labour and opportunities for selling which the individual capitalist needs in order to make a sale? How can it be assured that every one of these factors increases in the right proportion?' (p. 18).

From this it seems that the difference between the 'incorrectly' asked question and the real, significant question, which Rosa Luxemburg promises to answer, amounts to the difference between the analysis of static and dynamic conditions. However, the first sentences of the following chapter clearly testify to the fact that the correct question was also a temporary depiction of the object of the study. 'So far we have taken account only of the individual capitalist in our survey of reproduction ... This approach has already shown us that the problem involves difficulties enough' (p. 19). The proper object of her analysis, the issue which Rosa Luxemburg attempted to solve, became much more difficult and complicated when the argument moved from the individual capitalist to the totality of capitalists (p. 19). First and foremost, capitalist reproduction considered as a social aggregate is something different from individual capital reproduction, since aggregate social capital is not a mechanical sum of each individual capital, and social capital reproduction is not a sum of 'private capitalist' reproductions. Any given capitalist can, for example, expand production only because another capitalist is narrowing it down. Bankruptcy of one capitalist releases the means of production and labour needed by others. Here, we encounter the mutual neutralization and intersection of separate reproduction processes. 'Therefore we must clarify', continues Rosa Luxemburg, 'our concept of reproduction of capital as a whole, before we examine the laws and mechanisms of capitalist total reproduction. We must raise the question whether it is even possible to deduce anything like total reproduction from the disorderly jumble of individual capitals in constant motion' (p. 20).

The answer to that question is a prelude to the analysis of the issue of aggregate social capital reproduction. The remaining part of the second chapter ('Quesnay's and Adam Smith's analyses of the process of reproduction') and the third chapter ('A criticism of Smith's analysis') contain the analysis of views of the economists mentioned in the title precisely from this point of view. F. Quesnay 'at the dawn of economic theory and bourgeois economics ... approached the problem with

classical fearlessness and simplicity and took it for granted that total capital exists as a real and active entity' (p. 20). On the other hand, Smith 'by his wrong analysis of prices ... upset the whole foundation of the scientific demonstration of the capitalist process as a whole' (p. 22). Nevertheless, Luxemburg admits that both Smith and other representatives of the English classical school made significant progress in other aspects of the analysis of this issue, extending the Physiocrat concept of productive labour into non-agricultural sectors of material production.

The attempt at a more in-depth analysis of the aggregate social capital is the main subject of the fourth chapter of *Accumulation* ('Marx's scheme of simple reproduction'). The fundamental direction of Rosa Luxemburg's argument is determined by her thesis of a purely apparent independence of the individual capital motion. The following is the fundamental building block of Rosa Luxemburg's reasoning on this topic:

Thus social capital and its counterpart, the whole of social surplus value, are not merely real quantities, having an objective existence, but, what is more, the relation between them, the average profit, guides and directs the whole process of exchange ... by the development of labour productivity which on the one hand stimulates individual capitals to engage in pioneering work for the purpose of securing a higher profit than the average, and on the other hand extends the progress that has been achieved by individuals over the whole field of production. By means of the average rate of profit, in a word, the total capital of society completely governs the *seemingly* independent motions of individual capitals. (pp. 51–2, emphasis by T.K.)

In our opinion, this thesis suffers from a methodological fallacy, which can be described as excessive abstraction. Rosa Luxemburg evidently ignored the issue of not just the apparent, but rather the relative independence of individual capital. She disregarded the significance of the analysis of the whole nexus of contradictions resulting from the multidirectional movements of individual capital, contradictions between the part and the whole. She rendered the method of aggregate analysis absolute. On the one hand this indicated her remarkable theoretical and abstract thinking skills. But, on the other hand, it hindered the solution of the question of capital accumulation. She was undoubtedly right when she emphasized that satisfaction with the analysis of individual capital is characteristic of the vulgar approach to economic issues. However, when she claimed that the analysis of aggregate capital is

from a scientific perspective the only authoritative and correct method (*Anti-Critique*, p. 51), she committed an error of methodological bias, whose consequence is easy to demonstrate.

From the logic of Rosa Luxemburg's fundamental concept, it follows that increasing consumption demand of society is beneficial to accumulation. In *Anti-Critique* she stood directly against the view, at that time popular not only in bourgeois economics, that reducing wages increased accumulation, since it increased the source of accumulation – surplus value. In the light of the analysis of aggregate capital, it was clear to her that (in various given conditions) wage reduction decreases the basis of accumulation. Disputing with Bauer, she wrote: 'What sort of a remarkable economic law for the movement of wages is it, that they must "continually fall" "until the entire working class is employed"? We are now experiencing a curious phenomenon: that the lower the wages fall the higher the level of employment rises. When wages reach their lowest point the entire reserve army will be absorbed! In real life the normal course of events is quite the opposite' (*Anti-Critique*, pp. 118–19). Through such reasoning Rosa Luxemburg came close to the rational, modern approach to this issue.¹⁴ On the other hand, she did not recognize the role of the increased capitalist consumption as a factor inducing economic growth – precisely because the perspective of aggregate capital was absolute for her, thus losing sight of the internal dialectics of the motion of individual capital and aggregate capital. The answer to her question whether capitalists expanding their own consumption can be the recipients of capitalized surplus value (*Anti-Critique*, p. 55), refers to the standpoint of aggregate capital. 'Again, the standpoint of total capital differs basically from that of the individual employer. For the individual, the luxury of "high society" is a desirable expansion of sales, i.e. a splendid opportunity for accumulation. For all capitalists as a class, the total consumption of the surplus value as luxury is sheer lunacy, economic suicide, for it is the destruction of accumulation at its roots' (*Anti-Critique*, p. 56).

If Rosa Luxemburg had not raised the issue in such an extremely biased manner then perhaps she would have noticed that here lay part of the solution to the problem she examined.¹⁵

Until now, in the argument of this chapter, we highlighted both weak and strong aspects of Rosa Luxemburg's views on the relations between aggregate demand and capital accumulation. We showed the persistence of the author of *Accumulation* in breaking the barriers of orthodox thinking that neglected the significance of aggregate demand, and at the same time her lack of success in solving the problem. Nonetheless,

even these considerations of Rosa Luxemburg which are full of obscurity and confusion confirm Kalecki's opinion quoted in the introduction, namely that Rosa Luxemburg came closest to depicting this issue in Keynes' (and Kalecki's) theory. It is not difficult to prove, referring to the competent modern testimony of the relationship between Hobson's under-consumption theory and Keynes' theory.

J.A. Estey wrote the following about the relationship between Keynes and Hobson: 'He would not agree with Hobson that the crisis is brought on in a great flood of goods. There is no such flood of goods, for entrepreneurs will avoid any such calamity by restriction of investment whenever their expectations begin to fade. That is, Hobson traces the crash to savings that are invested, Keynes to savings that *not*.'¹⁶ A similar opinion is given by Keynes himself.¹⁷

Translating Estey's statement quoted above into the language of Rosa Luxemburg, Hobson assumed that the whole unconsumed surplus value (savings) is accumulated (invested), hence in these terms he acknowledged Say's law of markets, against which Rosa Luxemburg argued so categorically. Part of her accusations against Marx's reproduction schemes, and particularly against the first critics of her *Accumulation*, refer also to Hobson. It was this assumption (that savings are always accumulated) with which one of her most mordant philippics against the 'experts' was concerned.¹⁸ She argued that for the profit to be accumulated there had to be prospects of a profitable sale of the increased mass of products (or services as in the case of the railway investment considered by Luxemburg).

Only because Rosa Luxemburg argued that the transformation of savings (unconsumed surplus value) cannot be treated as real accumulation, she opened the doors to the analysis of investment decisions of capitalist entrepreneurs, although her assumption that capitalists accumulate (make investment decisions) 'as a class' could not lead her to the solution of the problem.

4

The Unsuccessful Attempt to Complete Marx's Scheme of Reproduction

While holding the cognitive values of Marxian reproduction schemes in high regard, Rosa Luxemburg argued that Marx did not manage to utilize this analytical tool in analysing the specific features of reproduction and accumulation of aggregate social capital. She considered that this part of *Capital* (the third chapter of the second volume) was the least developed and the analysis of accumulation was barely initiated. Without further modifications, Marx's scheme is useless in analysing capital accumulation since it contains a number of misleading simplifications that prevent the understanding of how aggregate capital moves. In her view, the defects of the accumulation scheme rest on a few erroneous assumptions:

1. The scheme assumes that capitalist production creates its own, adequately sized market. Consequently, there is an impression of identity between production and realization, which is, of course, contradictory to the 'spirit of Marx's theory itself', and with many statements contained in the first and particularly in the third volume of *Capital*, where Marx emphasized the tendency of purchasing power (aggregate demand) to lag persistently behind rapidly growing production.
2. Marx omitted in the scheme the monetary form and phase of capital in the process of capital accumulation. He did not draw conclusions from his rejection of Say's law of markets, already in the first volume of *Capital*. Marx assumed that savings (surplus value minus capitalist consumption) are somehow automatically transformed by capitalists into real accumulation. Omission of the circulation of money in the scheme must lead, in Luxemburg's view, to major absurdities. Although the appearance of surplus value in a monetary form is not relevant in the course of real production, it is an important condition

- of capitalist accumulation. Although Marx repeatedly took up this issue in the second volume of *Capital*, the defect in his analysis was that he attempted to solve the problem through explaining the 'sources of money': 'the real issue is actual demand, the use made of goods, not the source of the money which is paid for them' (p. 128).
3. Marx analysed the accumulation of capital in terms of a society consisting solely of the capitalist class and the working class, i.e. in terms of 'pure capitalism'. According to his follower, Rosa Luxemburg, this assumption makes it impossible to discover for whom progressive expansion of production takes place. In this sense, the scheme cannot be interpreted otherwise than as production for the sake of production.
 4. Finally, Rosa Luxemburg criticizes Marx's scheme for disregarding increasing labour productivity, assuming a constant organic composition of capital. Like many Marxists at that time, she only knew one type of technical progress, nowadays called capital-intensive. She was convinced that technical progress must manifest itself in an increasing share of constant capital in the value of production, what for her was merely a restatement of the same phenomenon, in an increasing share of department I (production of the means of production) in aggregate social production. Hence, taking technical progress into account would introduce to the issue of reproduction numerous difficulties in maintaining proportions in both value and product terms.

At various stages of her analysis, Rosa Luxemburg rejects the assumptions criticized, although none of them is rejected in a 'strictly scientific way', i.e. simultaneously correcting the accumulation schemes. After a longer consideration of the role of money in capitalist reproduction, in the first chapter of the book, she did not return to this problem in the third chapter, where she develops her own formulation of the problem of capitalist accumulation. The same applies to the question of the identity of production and conditions of realization. Nowhere did she try to present her views in the form of a corrected or extended scheme. Furthermore, nowhere did she attempt to depart from the Marxian abstraction of 'pure capitalism' in a 'theoretically scientific' manner. Although the criticism of this abstraction appears throughout the book, wherever she would make use of reproduction schemes, she used Marx's schemes based on the assumptions criticized. In this sense, that is, in the sense of her understanding of the scientific accuracy of the analysis, Rosa Luxemburg did not even provide 'an attempt at a strictly scientific approach' to the issue of capital accumulation, let alone the hope she

expressed in the preface, namely that her analysis would be completed successfully.

The only correction to the schemes that was made by Rosa Luxemburg is the introduction of the rising organic composition of capital. The scheme constructed in such a way became for the author the basis for far-reaching conclusions, amounting primarily to the fact that no change of production method can take place in the process of accumulation without undermining the fundamental assumptions of the Marxian scheme. Furthermore, she argued that the disproportions emerging, due to such changes in technique in the process of capitalist accumulation, can be eliminated or alleviated exclusively outside of 'pure capitalism', i.e. the path of exchange between capitalism and the pre-capitalist environment. Let us take a closer look at the reproduction scheme constructed by Rosa Luxemburg at this point. Even if we conclude that this scheme does not play any important role in her views in general, we cannot forget that it did play such a role in the later disputes around *Accumulation*.

The third part of Rosa Luxemburg's work begins with an analysis of the contradiction in the Marxian scheme of enlarged reproduction. This contradiction is accounted for not only by the assumption of an identity between production and surplus value realization, as well as by the assumption of pure capitalism, but also by the neglect of the growth of the organic composition of capital. The following is the author's argument on this topic:

If we examine critically the diagram of enlarged reproduction in the light of Marx's theory, we find various contradictions between the two. To begin with, the diagram completely disregards the increasing productivity of labour. For it assumes that the composition of capital is the same in every year, that is to say, the technical basis of the productive process is not affected by accumulation. This procedure would be quite permissible in itself in order to simplify the analysis, but when we come to examine the concrete conditions for the realisation of the aggregate product, and for reproduction, then at least we must take into account, and make allowance for, changes in technique ... Yet if we allow for improved productivity of labour, the material aggregate of the social product ... will in consequence show a much more rapid increase in volume than is set forth in the diagram. This increase in the aggregate of use-values, moreover, indicates also a change in the value relationships. As Marx argues so convincingly, basing his whole theory on this axiom, the progressive development of labour productivity reacts on both the composition

of accumulating capital and the rate of surplus value so that they cannot remain constant under conditions of increasing accumulation of capital, as was assumed by the diagram. (pp. 315–16)

In Rosa Luxemburg's scheme there is: (1) growth of constant capital in absolute and relative terms, i.e. in relation to the newly produced value; (2) growth of constant capital relative to variable capital, and (3) growth of the surplus value rate. Introducing these changes to the so-called 'second' Marxian enlarged reproduction scheme, Rosa Luxemburg obtained the following numerical result (p. 317):

1st year:

I. $5,000c + 1,000v + 1,000s = 7,000$ means of production

II. $1,430c + 285v + 285s = 2,000$ means of consumption

2nd year:

I. $5,4284 - 7c + 1,0713 - 7v + 1,083s = 7,583$ means of production

II. $1,5875 - 7c + 3112 - 7v + 316s = 2,215$ means of consumption

3rd year:

I. $5,903c + 1,139v + 1,173s = 8,215$ means of production

II. $1,726c + 331v + 342s = 2,399$ means of consumption

4th year:

I. $6,424c + 1,205v + 1,271s = 8,900$ means of production

II. $1,879c + 350v + 371s = 2,600$ means of consumption

Both in Marx's and Rosa Luxemburg's scheme, capitalists in department I accumulate half of surplus value obtained every time, while accumulation in department II is irregular, defined by turnover in department I.

In the first year, accumulation in department II is 184, in the second year 160 and in the third year 172. As in Marx, the rate of capitalist consumption in department II is irregular, although its absolute value increases continuously. The sums of surplus value obtained by capitalists in the first and second department Rosa Luxemburg derived from Marx's scheme,¹ constructed with the assumption of constant ratio c/v .

Hence, although the scheme constructed in this way represents certain progress relative to Marx's scheme, manifest in the growth of the organic composition of the capital (the ratio c/v increases annually in proportion 5:1, 6:1, 7:1, 8:1) and growth of the surplus value rate, as well as in the faster growth of department I relative to department II, it cannot constitute a basis for any far-reaching conclusions.

Nevertheless, Rosa Luxemburg argued otherwise, basing the following argument on the results obtained in the scheme.

Assuming that accumulation would follow the course outlined by Luxemburg, the deficit of the means of production would increase annually (in the second year 16, in the third year 45, in the fourth year 88, etc.) and a corresponding surplus of the means of consumption would follow. If we accept that, under these assumptions, the mass of products in both departments grows faster than their value, then the mass of the means of productions is sufficient to continue production on an increasing scale despite the deficit in value relations. However, this merely shows with doubled emphasis the problem of the surplus in means of consumption. Rosa Luxemburg identifies two solutions, out of which only the latter is logical: 'In that case, we should have to compel the capitalists of Department II to consume this surplus themselves, which Marx makes them do on other occasions; in which case, and in so far as those capitalists are concerned, there would again be no accumulation but rather simple reproduction. Alternatively, we should have to pronounce this whole surplus unsaleable' (p. 318).

This restricts in advance the possibility of solving the problem of the deficit in means of production. Rosa Luxemburg notices that there is no obstacle in solving the problem assuming a relatively increasing rate of accumulation of capitalists in department I. Such an assumption is even more acceptable, given that technical progress leads to a fall in the value of the means of consumption, allowing living standards to be maintained for capitalists or even increasing them, conditional on a relative decrease in the consumption share of the surplus value. However, accumulating surplus value in department I on an increasing scale would necessarily exacerbate difficulties in realizing the means of consumption, i.e. solving one difficulty would only exacerbate the other. 'It goes without saying that if the capitalists of Department I relatively restrict their consumption for purposes of accumulation, there will be a proportionately greater unsaleable residue of consumer goods in Department II; and thus it becomes more and more impossible to enlarge the constant capital even on its previous technological basis. If the capitalists in Department I relatively restrict their consumption, the capitalists of Department II must relatively expand their personal consumption in proportion. The assumption of accelerated accumulation in Department I would then have to be supplemented by that of retarded accumulation in Department II, technical progress in one department by regression in the other. These results are not due to mere chance' (p. 319).

Rosa Luxemburg presents the same question in a different form. An increase of the ratio v/c must find its material manifestation in the more rapid growth of department I. Such a difference in growth rates of both departments was ruled out by Marx in advance. True, within total social production such a relationship is possible, so that along with the progress of accumulation and its technical basis, society devotes systematically more resources to expanding the size of production in department I. This is indeed confirmed by the practice of capital taken as a whole. Nonetheless, such an assumption is only acceptable as long as we consider the accumulated surplus value as a certain sum of values. However, Marx does otherwise. In his accumulation scheme, capitalized surplus value is presented not only as an aggregate value but also as an adequate amount of the means of production or the means of consumption required for further expansion. Hence, transfer of a part of the accumulated surplus value from department I to II 'is ruled out, first because the material form of this surplus value is obviously useless to Department I, and secondly because of the relations of exchange between the two departments' (p. 321), i.e. because of the assumption of equivalence of inter-departmental exchange. Thus, the conclusion remains the same as it was before. Relatively more rapid growth of department I is unattainable in Marx's scheme. The general conclusion of this part of the analysis is as follows: 'However we may regard the technological alterations of the mode of production in the course of accumulation, they cannot be accomplished without upsetting the fundamental relations of Marx's diagram' (p. 321).

Rosa Luxemburg returns to the same issue in a similar way in her *Anti-Critique*. Disputing with her, Otto Bauer opposed her enlarged reproduction schemes, through which he argued that the problem of surplus value realisation does not exist. Bauer's scheme assumed constant capital growth at an annual rate of 10 per cent and variable capital at a rate of 5 per cent, with correspondingly faster growth in department I than II. The rate of surplus value remained unchanged. From the point of view of the outcome of Bauer's efforts, his scheme was surprising inasmuch as after each cycle of production and exchange there also remained a growing surplus of unrealized commodities. A certain surplus of the means of consumption and a significantly larger surplus of the means of production could not be contained in subsequent rounds of an equivalent exchange. Bauer dealt with this difficulty by assuming that capitalists in department II constantly accumulate part of the surplus value in enterprises of department I. This allows for a more rapid production growth of the means of production. Capitalists in department II

carry out this operation in such a way that a part of them, or part of their capital, is devoted to opening their own enterprises producing products of department I in order to purchase shares in this type of enterprises, or they undertake banking activities leading to the same result.²

Rosa Luxemburg opposed the above solution of Bauer with all her journalistic skill. Responding to Bauer's thesis that in this way surplus value becomes realized completely, she wrote: 'The result is very nice, but the excitement is somewhat modified by the manipulations that brought it into being' (*Anti-Critique*, p. 95):

It is certainly a bold idea. Marx was the first in the history of political economy to make the distinction between the two departments of social production and describe it schematically. This is a fundamental concept which put the whole problem of social reproduction on a new basis and made it possible to investigate accurately for the first time. Marx's distinction and his model, however, assume that only *exchange relations* exist between the two departments, which is precisely the basic form of capitalist or commodity-producing economy. When working with his model, too, Marx keeps strictly to this basic condition, just as he sticks to all his assumptions with relentless consistency. Bauer comes along and casually hurls Marx's entire analysis to the ground by 'transferring' the commodities backwards and forwards from one department to the other *without exchange*, and flying about in the rigorous model like a wild goose in the sky, to use a Polish proverb. (*Anti-Critique*, p. 96)

Rosa Luxemburg did not question the possibility of transferring accumulation from one department to another. She argued, however, that it can only take place in the form of money capital, 'that form of capital which does not differentiate and is absolute, and is therefore essential for social fluctuation, to initiate the displacements of social commodity production' (*Anti-Critique*, p. 96). Nevertheless, she argued that one could not purchase shares of a copper mine with an unsold part of wax candles or set up new factory of unmarketable rubber shoes. In her view, one should hold on strictly to the assumption that exchange is the only bridge between the two departments and Bauer's operations wreck the precise construction of Marx, the outcome of one hundred years of struggle by political economy to solve this problem.

Attempting to prove that, under pure capitalism, the realization of surplus value is possible and hence that there is no particular problem requiring solution, Bauer did not succeed in constructing a scheme

of proportional reproduction. This was for Rosa Luxemburg an unintended confirmation of her thesis that 'accumulation simply cannot be confined to the mutual relations of purely capitalist industry' (*Anti-Critique*, p. 98).

Those were the outcomes of Rosa Luxemburg's efforts to improve directly Marxian reproduction schemes. Nowadays, half a century later [in 1963], it is not difficult to expose the fundamental deficiencies of the only theoretical construct Rosa Luxemburg developed in order to depict precisely the analysed problem of realization. Elaborate critical analysis is not necessary [especially with a Polish reader in mind]. No, more serious, economist currently supports the existence of either a general law of faster growth in department I or the 'law' of the organic composition of capital growth as universal laws. Furthermore, it turned out that there is no systematic or direct link between these two 'laws', as was suspected before. Hence, it is incorrect to state that growth of the organic composition of capital must be manifest in a corresponding growth of share of the means of production in aggregate production.³ Moreover, on the issue of accumulation transfer from one department to another,⁴ the issue which clearly indicates that Rosa Luxemburg criticized Marxian enlarged reproduction scheme so exhaustively and excessively because she overstated the significance of this construct for explaining the problem of accumulation;⁵ nowadays there is also no doubt that history proved Bauer right. The accumulation transfer takes place in both monetary and material form. Quite a significant portion of social production can be used both as the means of production and a subject of consumption, and the range of this 'freedom of choice' is the greater in the earlier phases of processing industries. Numerous and long-standing efforts aiming at a precise division of social production into two major departments, which is achieved only approximately, testify against an excessively rigorous understanding of the division introduced by Marx. One can be easily convinced by comparing appropriate calculations in different socialist countries. The issue of accumulation transfer was only explained by the practice of these countries, where 'accumulation takes place primarily in Division 2 and it is invested mainly in Division 1'.⁶

Although from the point of view of its results, Rosa Luxemburg's investigation may be negatively evaluated, attention needs to be drawn to one more aspect. The author's reasoning does not amount to a mere statement of inter-departmental disproportions. Consistent reasoning would refer this general statement not only to the fundamental departments of social production, but also to any branch of production in which growth of the organic composition of capital takes place

unevenly. It then turns out that Rosa Luxemburg's argument reduces the whole issue of contradiction between production and consumption to the problem of disproportionality, which has nothing to do with the issue of insufficient aggregate demand highlighted by her. Furthermore, exceeding the boundaries of pure capitalism, that is, including mutual relations of capitalism with the non-capitalist environment, makes a capitalist economy more flexible, allowing for elimination of emergent disproportions. However, international exchange was ascribed such role also by the followers of the so-called disproportionality theory opposed by Rosa Luxemburg, namely Bauer and Hilferding.

The latter remark leads to a view that the investigation analysed here not only put Rosa Luxemburg's thoughts on the wrong track. This entire theoretical construct also constitutes a foreign body in a book devoted to solving the issue of effective demand. Numerous difficulties in maintaining adequate proportions as the condition of reproduction, that preoccupied Rosa Luxemburg so strongly, go beyond capitalism, which she did not realize. It is yet another surprising inconsistency found in the author who extracted this transcendental content from Marxian reproduction schemes in such a pioneering way.

If Rosa Luxemburg's scheme nevertheless deserves our attention, it can be only as the first attempt in published economic literature⁷ to take into account technical progress (as it was understood at that time and by the author) in a general, synthetic formula of economic growth, paving the way for later, more precise depictions.

The fact that Rosa Luxemburg's attempts, to solve the problem of the relationship between aggregate demand and capital accumulation with improved reproduction schemes of Karl Marx, did not succeed should not suggest that these schemes are of no use whatsoever for tackling this problem. This construct is obviously insufficient, but after certain transformations it can be an excellent departure point for solving this problem. It was this approach that Michał Kalecki took in developing both his business cycle theory and the theory of economic growth under capitalism.

Let us take a closer look at Kalecki's construct and its relationship with the Marxian reproduction schemes, to facilitate our understanding of Rosa Luxemburg's efforts discussed in the previous and following chapters.

In order to define the fundamental relationships between economic aggregates, Kalecki, like Marx, initially assumes a closed economy, consisting exclusively of capitalists and the working class.⁸ He analyses social product from the point of view of both income and expenditure.

What follows is the balance of the gross social product (i.e. national income and utilized means of labour):

Gross profits	Gross investment
Wages and salaries	Capitalist consumption
	Workers' consumption
Gross social product	Gross social product

Kalecki further assumes that workers spend all their wages on consumption (they do not save). If this balance sheet is simplified for the sake of further analysis by subtracting from both sides the same magnitude: wages and workers' consumption, the fundamental equation is obtained:

$$\text{Gross profits} = \text{Gross investment} + \text{Capitalist consumption}$$

In the interpretation of this basic equation, Kalecki finds the key to changes in the size of production. The fundamental difficulty lies in understanding the direction of the relationship within this equation. So-called common sense would suggest that profits define capitalist consumption and investment, that the more is saved (i.e. the less is consumed) the more resources are available for investment. However, it turns out that in the conditions of capitalism, which suffers from unutilized productive capacity, the principle is reversed. This is because in a given period capitalists cannot decide on the size of their profits, since these have been defined by investment and the size of production in the previous period. However, they can increase their consumption and/or investment expenditure above or below their current profits. They can use credit or utilize their own reserves. Conversely, they can also increase their reserves and pay off credits. The outcome of these decisions of capitalists would be either expansion or contraction of production, and thus of profits. Hence, the conclusion seems paradoxical at a first glance – the more capitalists spend, the higher their profits. Moreover, it applies to both investment and consumption expenditure. In the latter case, an increase in the consumption expenditure of capitalists would trigger expansion of production, employment and profits.

In order to present this reasoning more clearly, Kalecki resorted to a three-sector economy scheme:

- Department 1 – investment goods
- Department 2 – capitalist consumption goods
- Department 3 – workers' consumption goods

Let us begin the discussion of exchange with department 3. It is clear that this department produces the equivalent of wages in all three departments. In turn, the sum of departments 1 and 2 equals the gross profits of capitalists in all three departments (for simplicity, Kalecki employs the notion of gross profits, which in Marxian terms encompasses both surplus value and amortization). Let us assume that Π – gross profits, W – wages, I – investment, C_K – capitalist consumption, C_W – workers' consumption, P_1, P_2, P_3 – production of respective departments, Y – gross social product. We then obtain the following *Tableau économique*:⁹

P_1	P_2	P_3	
Π_1	Π_2	Π_3	Π
W_1	W_2	W_3	W
I	C_K	C_W	Y

In order to obtain national income one would need to subtract amortization from Y (in simple reproduction – subtract investment).

The basic equations of exchange result from the fact that workers in department 3 produce consumption goods not only for themselves but also for workers employed in the remaining two departments. This sum is a surplus over wages of production in department 3; hence, it represents profits of capitalists in department 3, which are exchanged for investment goods and capitalist consumption goods. This is expressed by the equation:

$$\Pi_3 = W_1 + W_2 \quad (1)$$

The second round of exchange takes place between the first and the second department. Assuming that capitalists consume one half of their profits and invest the other half, the exchange is depicted by the equation:

$$\frac{\Pi_1}{2} = \frac{\Pi_2}{2} \quad (2)$$

Here, it is worth emphasizing that according to Kalecki, who in this case follows Marx's footsteps, production in department 3 is dependent on production in department 1 and 2.¹⁰ In fact, the whole scheme presented here is a slightly modified (and generally simplified) reproduction scheme of Karl Marx. Nevertheless, Kalecki did not stop at defining the fundamental economic relationships of a technical, balance sheet type, but he produced a specifically capitalist interpretation of these

schemes, which was called for by Rosa Luxemburg. Let us turn our attention to the fundamental theses of this interpretation.

An inherent feature of an advanced capitalist economy is the problem of under-utilized productive capacity.¹¹ In these conditions, the size of employment and national income, and hence of capitalist profits, is dependent on the size of the flow of capitalist consumption and investment expenditure. The problem of insufficient demand arises primarily not due to the inability to realize the surplus of already produced commodities, but because the weak prospective profitability of sales makes capitalists unwilling to transfer all savings into investment. Here, insufficient demand means primarily the difficulty in realizing products, which could be easily produced given the existing production apparatus.

From this formulation of the problem follows a number of important conclusions:

1. Since workers (employees) in principle do not save, a mere reduction in income inequality leads to an increase in consumption expenditure (decrease in savings).
2. The state is able to encourage capitalists to increase investment expenditure through a suitable credit policy. It can also generate investment through public orders, e.g. armaments; it can also conduct public works. If these purchases are financed from a government deficit, total demand expands, triggering an increase in employment, production and the profits of capitalists. A similar outcome would result if the state financed these ventures from taxation of capitalist profits. To a certain extent, the purpose of the state expenditure matters little, as long as the money is spent.¹²
3. This production for the sake of production, which disturbed Rosa Luxemburg so much, finds a paradoxical explanation in Kalecki's theory. It turns out that from the capitalist point of view, production for the sake of production is not absurd even in conditions of under-utilized productive capacity. Kalecki argued that in order to utilize fully existing productive capacity, it needs to be extended. In one of his works, he referred to the following example, which brilliantly captures the absurdity of the capitalist rules of the game. Let us assume that in the United States there are two unutilized railways running between two cities. What should be done if they are poorly utilized? A third railway should be constructed, because in this case the two first railways would serve to transport materials and workers employed at the construction.¹³

4. In Kalecki's reasoning, money was taken into account in various ways. What is most important is that money makes it possible to refrain from investing the saved sums and allows capitalists to utilize reserves and credit when they want to spend more than their current profits allow. Hence, money is at the roots of Kalecki's interpretation of the basic equation:

$$\begin{aligned} \text{Gross profits} &= \text{Gross investment} + \text{Capitalist consumption} \\ (\Pi = I + C_K) \end{aligned}$$

If capitalist consumption was to be subtracted from both sides of the equation, we obtain the equilibrium equation, according to which savings need to equal investment ($S = I$). In interpreting this equation, Kalecki takes into account the role of the rate of interest, which – along with the expected profit rate from investment – is the basis for investment decisions of entrepreneurs.¹⁴

As we have partially shown and as we will show in more detail in the next chapter, Rosa Luxemburg attempted to take into consideration the role of money as the instrument of accumulating money reserves (savings). However, apart from the example of railway investment quoted earlier, she did not consider more closely the role of the rate of interest in making investment decisions.¹⁵

Hence, the route to the solution of the problem led through the economic interpretation of Marx's schemes and not through a reconstruction of these schemes so as to obtain specific quantitative proportions, which would indicate the inability to realize (part of) the surplus value.

5

The Misunderstanding around the Role of Money in the Process of Capital Accumulation

Rosa Luxemburg systematically takes up the issue of the role of money in the process of capitalist reproduction in three chapters of the first part of the book. The fifth chapter ('The circulation of money'), coming after the presentation of the Marxian simple reproduction scheme, puts this scheme to the test from the point of view of money as a means of circulation. Apart from one issue, about which she disagrees with Marx, this chapter does not contain anything new. The subject of her dispute with Marx was the following question. Rosa Luxemburg argued that Marx's inclusion of the entire production of money (under the assumption of gold money) into the first department of social production (production of the means of production) is incorrect. Money is neither the means of production nor the means of consumption and its production should be, in her opinion, treated as a separate, third department of social production in the analysis of capitalist reproduction. Her argument aims to show that the inclusion of gold-money production into the first department undermines the material and qualitative proportions of Marx's scheme, making it meaningless (p. 71). In the light of the obvious evolution of monetary circulation in the previous decades, manifest in an increasingly widespread substitution of proxies for gold money, this analysis of hers can be left without undertaking a detailed critical analysis.¹ This also applies to the second issue highlighted by her, i.e. including money into a separation department – the desire to emphasize that this production represents unproductive costs of capitalism, a peculiar burden for the society based upon private enterprise (p. 75). Such analysis is unnecessary, since the author herself does not attempt to abide by the adopted method of investigation in further analysis, persistently using the two-sector scheme.

Of much greater significance is her analysis of money *sub specie* the accumulation of capital. This is the subject of the eighth ('Marx's

attempt to resolve the difficulty') and the ninth chapter ('The difficulty viewed from the angle of the process of circulation'). In her view, Marx's complete omission of the circulation of money in the enlarged reproduction scheme, as a result of which the accumulation process seems 'so smooth and simple in the diagram of enlarged reproduction, has great disadvantages of its own' (p. 111). Abstraction from money may be acceptable in the analysis of simple reproduction, when the sole objective of this reproduction is consumption, so money plays a limited role as the means of exchange. However, in accumulation, the money form plays a much more significant role as the form in which capital is manifest. Both of the transformations of the finished product, which are already known to us, are an important condition and incentive of enlarged reproduction. Marx was clearly aware of the fact that his seemingly uniform capital accumulation scheme contains a 'significant gap' and for this reason he analysed the issue from various different angles, 'focusing on the fact that surplus value must pass through the money stage before it is accumulated' (p. 112). Nevertheless, in her opinion, he did not give solution to the problem.

On the basis of numerous excerpts from the second volume of *Capital*, containing the attempt to solve the issue, excerpts constituting the basis and a significant part of the aforementioned two chapters of the work, Rosa Luxemburg drew the following conclusions: 'It is not the source of money that constitutes the problem of accumulation, but the source of the demand for the additional goods produced by the capitalised surplus value; not a technical hitch in the circulation of money but an economic problem pertaining to the reproduction of the total social capital' (pp. 119–20). The fundamental deficiency of Marxian analysis was 'the misguided formulation of the problem as a mere question of "the sources of money"', whereas the real issue is the effective demand, the use made of goods, not the source of the money which is paid for them. As to money as a means of circulation: when considering the reproductive process as a whole, we must assume that capitalist society must always dispose of money, or a substitute, in just that quantity that is needed for its process of circulation. What has to be explained is the great social transaction of exchange, caused by real economic needs ... it is important to remember that capitalist surplus value must invariably pass through the money stage before it can be accumulated' (p. 128). Similarly, but even more emphatically, she wrote elsewhere: 'All this time, it appears, Marx has been tackling the problem from a wrong approach. No intelligent purpose can be served by asking for the source of the money needed to realise the surplus value. The question

is rather where the demand can arise – to find an effective demand for the surplus value. If the problem had been put in this way at the start, no such long-winded detours would have been needed to show whether it can be solved or not' (p. 138).

Arguing that in the second volume of *Capital* Marx did not give any solution to the problem of accumulation, Rosa Luxemburg tried to explain this fact. What has to be primarily taken into account is that the second volume of *Capital* was not a complete work, but a manuscript breaking off in the middle of a sentence, notes, which – particularly in parts concerning the issue of accumulation – were to be thoroughly rewritten. Rosa Luxemburg called the most competent witness, Friedrich Engels, to testify and argued likewise.

Apart from this 'external' aspect, there is another factor which hindered the solution of the issue of accumulation. The entire economic analysis of Marx, not only in the second volume of *Capital*, but also in the first and third one, as well as in *Theories of Surplus Value*, is dominated by the dispute with Smith's dogma. 'He devoted all his attention to proving that the total capital of society must serve, not only for consumption to the full amount of the various sources of revenue, but also for renewal of the constant capital' (p. 142). In this he saw the most difficult and momentous problem of reproduction. However, because of this, another issue, the problem of surplus value realization for the purpose of accumulation, was pushed aside (p. 143).

Such is the conclusion of the first part of Rosa Luxemburg's book. The fundamental thesis of the author amounts to the accusation directed towards Marx that he replaced the question of where demand comes from with a nonsensical question – where money needed for the circulation of a growing mass of finished social product comes from. In this way, Marx artificially separated the issue of capital from its money form, reducing the issue of money to a purely technical aspect, while in fact the money form of capital plays an important role in the process of accumulation, a role that is by no means technical but rather socio-economic.

This thesis encountered rather surprising criticism from two prominent Marxist economists. Paul M. Sweezy complemented his interpretation of Rosa Luxemburg's theory with the following footnote: 'We leave out of account altogether purely monetary problems of capital accumulation though she devotes a great deal of attention to them, frequently even confusing the question, where does the *demand* come from, with the question, where does the *money* come from? It is in discussing the latter question that she shows to least advantage, but it is, after all, a minor problem which is essentially irrelevant to her main thesis'.² This

accusation is unjustified in the sense that Sweezy did not attempt to back it up with arguments. Of course, Rosa Luxemburg may be accused of failing to achieve any marked success in the analysis of money, in the sense that her arguments on this matter did not turn out to be too fruitful for the issue of solving the capital accumulation problem. However, it is doubtful that one could justifiably accuse her of something against which she argued so persistently and consistently.

A different accusation was put forward by Nikolai Bukharin. In his view, Rosa Luxemburg had an utterly unbelievable ('geradezu ungeheuerliche') idea about the accumulation of capital. This economist 'identifies the accumulation of the total social capital with the accumulation of money capital ... She is of the opinion that the aim of the capitalists is incorporated in *money*', Bukharin observed ironically, 'as an end in itself. If money constitutes *merely* a phase in the movement of "real production", there can be no talk at all of a capitalist accumulation'.³

In Bukharin's view, such an understanding of capital accumulation by Rosa Luxemburg can be based on the argument contained in her main work. Moreover, this thesis can be found *expressis verbis* in *Anti-Critique*. As Bukharin's accusation appears to be truer, it is suitable to focus more on this issue.

In the *Anti-Critique*, certain formulations apparently confirming Bukharin's accusation can indeed be found. Rosa Luxemburg did write about capitalist accumulation 'i.e. the amassing of money capital' (*Anti-Critique*, p. 57). However, just how superficial and unjustified it is to derive such a forward-looking conclusion from this formulation, is proved by an argument on the very same page: 'Then what else is accumulation but extension of capitalist production?'

Of course, both the first and the second formulation are not very precise, since the term 'accumulation' can also signify the accumulation of money, which would not be consistent with enlarged reproduction. Nevertheless, the numerous quotations above directly and clearly confirm that wherever she emphasized the accumulation of capital in the money form, Rosa Luxemburg wanted to highlight exclusively the fundamental idea of Marx that accumulation of money is 'the compelling motive of capitalist production', that 'the process of production appears merely as an unavoidable intermediate link, as a necessary evil for the sake of money-making'.⁴ Marx was naturally much more precise than his follower was, but even in his work we read that, e.g. 'variable capital always appears anew as money-capital',⁵ and one of his sub-chapters is even entitled 'Accumulation of money'. Hence, the follower merely expressed regret that her teacher did not manage to achieve consistency

in his analysis, that by not taking the money form into account in constructing his enlarged reproduction schemes he provided a certain rationale for the Tugan-Baranovsky type of interpretation. What was 'unbelievable' was not her understanding of capital accumulation but the accusation against her formulated by Bukharin.

Let us examine Bukharin's accusation from one more angle. Let us return to the second volume of Marx's *Capital*, to try to answer the question of in what state were Marx's manuscripts referring to reproduction and aggregate social capital circulation, from precisely the point of view of considering the role of money in the process of capitalist reproduction. Agreeing with Rosa Luxemburg's stand, we will not try to follow in her footsteps and conduct a detailed and exhausting textual exegesis of Marx's manuscripts, but we will limit ourselves to the polemical arguments referring to David Rozenberg (and partially Friedrich Engels).

Nowadays one does not have to prove that Marxian reproduction schemes turned out to be one of the most fruitful theoretical concepts in the entire economics. However, it does not change the fact that the part of Marx's *Capital*, in which this concept can be found, was published based on manuscripts of a sketchy and unfinished character – not only from a formal, linguistic point of view. This was written by Engels, who related that Marx himself regarded its redrafting as necessary. The manuscript which constitutes the third part of the II volume of *Capital* 'is likewise merely a preliminary treatment of the subject'.⁶ Engels recreated this part by organizing and putting together fragments of two different manuscripts (the second and the eighth), as result of which, what emerged is not homogenous even from the point of view of the method of exposition.

In Engels' letter to Victor Adler we read: 'Section III is a most excellent account of the entire circuit of commodities and money in capitalist society – the first since the days of Physiocrats. Excellent in content but fearfully heavy in form because, (1) it is put together from two versions which proceed according to two different methods, and (2) because version No. 2 was carried to its conclusion by main force during a state of illness in which the brain was suffering from chronic sleeplessness'.⁷

The dispute about whether that section is unfinished only in its form or also in its content has a long history and we cannot take up the issue in its entirety due to the extent of this work. Nevertheless, leaning towards Rosa Luxemburg's opinion that the problem lies not only in form, we would like to question the legitimacy of the interpretation of Engels' letter quoted above, particularly because this matter is directly related to Rosa Luxemburg's dispute with Marx.

In *Komentarze do 'Kapitału'*, David Rozenberg maintains that in this part of the third section of Marx's work 'in terms of content, the analysis is essentially complete, i.e. the problem was solved by Marx'.⁸ One of the arguments supporting this comment is a suitable interpretation of Engels' letter: 'Speaking of the two parts and two different methods, Engels must have in mind the chapter which contains the critique of Smith's views, and moreover, the chapters containing the exposition of the positive theory of reproduction and social capital circulation. In the first part, Marx utilises an analytical method: criticising Smith's dogma, he simultaneously exposes its hidden foundations – the lack of understanding of the two-fold character of labour contained in commodities and the incorrect understanding of the essence of the capitalist mode of production. In the second part, Marx provides a synthesis: on the basis of the formulated premises he reproduces the movement of aggregate social capital'.⁹

In this interpretation, Engels only had in mind the two different methods of analysis, the analytical method on the one hand and synthesis on the other, which, however, would not have any direct link with the outcomes of Marx's investigation. Rozenberg's position seems to be confirmed in another opinion of Engels: 'The logical sequence [in the third section of the second volume of *Capital*] is frequently interrupted, the treatment of the subject gappy in places and very fragmentary, especially the conclusion. But what Marx intended to say on the subject is said there, somehow or other'.¹⁰

Did Engels nevertheless have a sufficient historical perspective, a sufficient distance towards the work of his friend, to be able to evaluate accurately the state and content of this part of Marx's manuscripts? In expressing his opinion, was the tendency thoroughly to investigate and solve the problem not dominated by his tendency to systematize, widely recognized and emphasized by many scholars? In the letter to Adler, does not the doubt, whether Marx indeed managed to convey what he intended, become apparent? Let us take a closer look at Engels' account of the state of the manuscripts making up the third section. Explaining why Marx thought that the third section necessarily required rewriting, Engels writes: 'for Manuscript II had first treated reproduction without taking into consideration money-circulation, which is instrumental in effecting it, and then gone over the same question again, but with money-circulation taken into account. This was to be eliminated and the whole part to be reconstructed in such a way as to conform to the author's enlarged horizon. Thus Manuscript VIII came into existence, a notebook containing only 70 quarto page ... This manuscript is likewise merely a preliminary treatment of the subject'.¹¹

With this remark, Engels justifies the need to revise the issue through the deficiency, which Rosa Luxemburg indicated so repeatedly and persistently. It was the uniform depiction of the issue of reproduction, in particular expanded reproduction, taking the circulation of money into account. It was about drawing conclusions from the money form of capital and capitalist accumulation, i.e. about rejecting Say's law.

Marx did not manage to complete this task not only in the sense of standardizing his exposition, but also in terms of solving the grand theoretical problem. In the first and second chapter of the second volume of his work, Marx considers the issue of circular movement and turnover (of reproduction and circulation) of individual capital, exposing the circular movement of money capital, hence taking into account homogeneity and the internal dialectics of the three different figures of the circulation process. From this point of view, the analysis of aggregate social capital is barely initiated. In particular, Marx did not succeed in including the money form of capital in any of his reproduction schemes and this deficiency of the schemes is particularly striking in reference to the accumulation of capital. Marx repeatedly highlighted Quesnay's lapse in his attempt to include the circulation of money as a significant element of *Tableau économique*. Nevertheless, in contrast with many other parts of the work, his criticism in this matter is exclusively negative. What was lacking was a positive critique, i.e. a continuation of the problem posed by Quesnay – taking into account money in capitalist reproduction as a whole.

In this light, how can one interpret Engels' words about the two methods of Marxian analysis contained in the letter to Adler, which we find in the exposition of reproduction and circulation of aggregate social capital? Did Engels not have in mind precisely this inconsistency of Marx's argument, because of which Marx wanted to modify completely the third section, the inconsistency referring to the problem of the role of money in aggregate capital reproduction? Are not these the two different methods about which Engels wrote – on the one hand analysing production without considering the circulation of money and on the other considering this circulation. Rather, was it not that Marx analysed the circular movement of commodities on the one hand and money on the other, and herein lies the difficulty in reading his work? Interpreting in this way seems more logical than claiming that Engels meant to draw Adler's attention towards such a banal and trivial issue as the fact that Marx used a different method when he criticized Smith from the one he used when he moved on to the positive exposition of his theory of reproduction. Such differences in the method of

exposition can be found in the second section of the second volume of *Capital*, in a few places in the first volume, in the third volume, in *Theories of Surplus Value*, in *A Contribution to the Critique of Political Economy*. However, Engels did not feel the need to explain these differences neither to such an intelligent reader as Victor Adler, nor in his popular studies. Why would he do so in a letter to Adler? At the same time it is tempting to explain Rozenberg's interpretation through his desire to prove that apart from its external form, Marx's work was 'in principle completely' finished.

Appendix I: The Theoretical–Analytical Significance of the Reproduction Schemes

1

The main feature and strength of Marx's method applied to the study of capitalism amounts to macroeconomic analysis. Elements of this method are found in many parts of his work (*Capital* and *Theories of Surplus Value*). Nevertheless, its direct manifestation is found in the third part of the second volume of *Capital* entitled 'The reproduction and circulation of the aggregate social capital'. In the first two parts of this volume, which deal with the circulation and turnover of capital, 'it was always only a question of some individual capital, of the movement of some individualised part of social capital'.¹ This also refers to the entire first volume of *Capital*. In fact, the Marxian method of studying the capitalist mode of production through the analysis of individual capital (capitalist) circulation – in contrast to the method of analysing of the laws of motion of aggregate social capital – one is tempted to describe as microeconomic. But it differs significantly from the microeconomic method developed by marginalist economics. The latter is much closer to the so-called *Betriebswirtschaftslehre* popular in Germany at that time than to Marx's method in his analysis of the individual capital. In contrast with the microeconomic methods of these schools, Marx always bears in mind that individual capital is 'some individualised part of social capital'. This type of analysis employed by Marx is found in works of English classical economists. To the extent they expounded the 'anatomy of bourgeois society', they also analysed the individual capitalist as a particular example of the collective capitalist, as a personification of the capitalist class. Furthermore, the similarity between Marx and the classics is also manifest in their dynamic developmental

approach, although the concept of development for the latter did not go beyond the scope of the bourgeois society.

The deficiency of the method of the English classics and the provisional method of Marx, in the parts of *Capital* which precede the exposition of aggregate social capital reproduction, lay in the assumption (in Marx temporarily) that (certain) characteristics of the capitalist mode of production and of its laws of motion can be revealed through the analysis of an 'ideal type' of individual capital and individual capitalist entrepreneur. This could give the impression that the capitalist mode of production is the sum of these 'ideal types' and that the aggregation of these 'ideal types' does not create a new quality.

However, Marx repeatedly emphasized, most notably in criticizing the English classics, that they squandered Quesnay's method employed in his famous *Tableau économique*, in which 'the innumerable individual acts of circulation are at once brought together in their characteristic social mass movement – the circulation between great functionally determined economic classes of society'.² He then referred to Quesnay's *Economic Table*, applying the same method to the theory of aggregate social capital reproduction not only in relation to simple reproduction but also to capital accumulation.

Nevertheless, Marx barely began the analysis of the latter issue, in particular, the issue of capital accumulation. Rosa Luxemburg emphasized that in the third part 'it is the last part of this section, i.e. chapter 21, "On Accumulation and Enlarged Reproduction", which is of primary importance in the present context, and of the whole book this is the most incomplete. It comprises thirty-five pages of print in all and breaks off right in the middle of the analysis' (p. 142). In her view, shortly after Marx began the analysis of the issue of aggregate social capital accumulation, he abandoned it (p. 143).³

Rosa Luxemburg was convinced that solving the issue of total capital accumulation would be of fundamental significance for the whole Marxian theory of capitalist development. Was she alone in this conviction? Since she was repeatedly criticized for her excessive tendency to criticize Marx, for engaging in polemic with him even where it was unnecessary, we will refer to an author whose reputation is that of the most consistently 'orthodox' among the theorists of the Second International – Karl Kautsky. He brought up this issue in the work which was possibly the most systematic and complete depiction and explanation of the materialist understanding of history. Analysing the general type of the mode of production, Kautsky emphasized that from

a socioeconomic point of view it is not enough to treat this type only as a whole consisting of interlinked labour processes. He wrote:

Only through study of the *process of reproduction* do we succeed in recognizing its entire character, all its laws. In Marxist economics, therefore, the examination of the process of reproduction plays a major role. If Marx had succeeded in finishing his *Capital*, in presenting fully the total process of the capitalist mode of production as a process of reproduction, then there would surely have emerged from it a new corroboration of his theory of value. In my opinion, the necessity of that theory can be compellingly demonstrated only from the process of reproduction, not from a single round of production. At the beginning of *Capital*, Marx shows, it is true, that the exchange of commodities is regulated by the law of value and logically grounds the latter; he did not, however, demonstrate the mechanism that causes law to prevail. This mechanism, in my view, is manifest only in the process of reproduction.⁴

Kautsky's view gives surprising support for the fundamental premise of Rosa Luxemburg's work. Kautsky regarded Marx's work as unfinished not only because, for example, Marx's accumulation schemes do not take the circulation of money or the role of money into account, but also because he did not manage to present fully the totality of the processes taking place in the capitalist mode of production, that would have fundamental meaning for understanding its specific nature and general laws. The absence of a justification for the laws of value in Marx's *Capital*, due to the incompleteness of the work, and the lack of a demonstration of how the law of value operates, were given by Kautsky as examples. This is confirmed by Kautsky's later arguments, which unexpectedly support the fundamental assumption of Rosa Luxemburg's work. We shall return to this later.

Kautsky further analysed reproduction as a certain general law that governs the production process, and that is as important in human behaviour as the principle of economizing. In his view, 'the endeavour to safeguard reproduction appears as an economic law even earlier than those of the saving of labour'.⁵ This is also of fundamental importance for understanding the character of the capitalist mode of production, which should not be analysed exclusively as an economy governed by this principle of economizing in its capitalist version, but also as an economy ruled by certain general laws of reproduction. He argued that the capitalist economizing principle itself leads to a predatory economy,

destroys the very sources of life, impoverishes the land, ravages the forests, leads adult workers to premature old age and death. 'The capitalist mode of production would already have perished in misery and filth if it did not spontaneously generate elements powerful enough to keep the "economic principle" in check and to stress the need for the continued existence of society, for safeguarding and promoting the process of reproduction'.⁶

Hence, Kautsky's stand can be understood as the conviction that only through analysing a given mode of production as a process of reproduction can one reveal its specific character and the general laws governing it. Hence, the concept of reproduction is the fundamental key to the analysis of capitalism as well.⁷

This view on the key role of the theory of reproduction and its place in Marxist economic theory is also consistent with the position of one of the sharpest critics of Kautsky and Rosa Luxemburg, the Polish economist who wrote in German, Henryk Grossmann. Indicating that Marx initially attempted to explore the subject of his analysis in its fundamental structure through numerous simplifying assumptions, which constitutes the first stage of cognition in the Marxian method of approximation, he wrote: 'it is the particular methodological principle that finds its specific reflection in Marx's reproduction schemes, which form the starting-point of his entire analysis, and which already underlie the arguments of *Capital Volume One*'.⁸

Both in this and elsewhere, Grossmann recognized the reproduction schemes as the most general construct (abstraction) of Marx. This aroused objection from not only Fritz Behrens, who accused Grossmann of 'having failed to understand Marx's method',⁹ but also Oskar Lange. While Lange admitted that Grossmann presented this method 'accurately and clearly',¹⁰ he found that Grossmann's assessment of the reproduction schemes as the fundamental and most general abstraction of Marx 'undoubtedly wrong'.¹¹ If we accept this remark of Lange as correct, then the general structure of Lange's *Political Economy* would be incomprehensible and inconsistent. Moving on to the theoretical exposition of 'the most general issues in political economy' in the second volume of this work, he begins precisely with reproduction and accumulation, leaving the exposition of commodity production and the law of value, as well as comparative economic analysis of social structures, for later. Only the third volume was supposed to contain a detailed analysis of the functioning and the law of motion of capitalist and socialist structures.¹² Hence, through the method of successive approximations, Lange intended to present the theory of reproduction

and accumulation not only before any analysis of capitalist production, but also before commodity production. He put the issue of reproduction at the forefront of the exposition of the substance of political economy, thus following in the footsteps of Henryk Grossmann.

Therefore, if one was to reject Grossmann's well-known tendency to present his own most original economic ideas solely as reconstructions of Marx's views,¹³ one has to admit that Grossmann touched upon a very important issue. Drawing all the consequences from Marx's scientific discovery, the uncovering of the basic proportions of social reproduction, would necessarily mean a reformulation in this light of earlier parts of his theory. For instance, the theory of value, whose significance can be only understood in the light of the theory of reproduction (which was rightly indicated by Karl Kautsky). In this case, the theory of value would be presented more comprehensibly and would also be more acceptable to many economists.

Grossmann's and Lange's view that reproduction schemes are Marx's fundamental and most general abstraction was slow in coming through due to the following two reasons:

1. Marx did not emphasize the general content or the universal character of terms and proportions contained in the reproduction schemes.¹⁴ Marx's exposition is overflowing with polemic with the ahistorical approach of the English classical economics. Consequently, all Marx's efforts were directed towards discovering the historically transient character of the capitalist system and the categories reflecting this. Marx and Engels' contribution to political economy cannot be overestimated primarily due to the historical point of view which they introduced into this science. However, it is difficult not to recognize that they emphasized the historical character of the field and of economic terms with a polemical bias. For instance, Engels wrote in *Anti-Dühring* that 'anyone who attempted to bring the political economy of Tierra del Fuego under the same laws as are operative in present-day England would obviously produce nothing but the most banal commonplaces'.¹⁵ Furthermore, he made this historically biased claim in the same chapter of the work, which contains the only articulation (by both Marx and Engels) of the postulate of developing political economy in its broad sense, i.e. encompassing the economic theory of all (previous) socioeconomic structures. Karl Marx's approach was even more historically specific than the approach of his colleague.
2. Recognition of the universal content of the Marxian reproduction schemes obstructed the simplified understanding of Marxian method

of successive approximations. The Marxian method of scientific abstraction consists of two analytical procedures. The first procedure involves searching for general concepts, abstract categories, generalizing actual reality. The second procedure involves drawing closer to actual reality away from abstract, general concepts. These two phases of analytical process are in short depicted as moving from the concrete to the abstract, as well as transferring from the abstract to the concrete. There is no disagreement that Marx's process of theoretical thinking consists of both phases of the analytical procedure. However, the first analytical process, movement away from concrete reality to obtain general concepts, the process of generalization, the formation of abstract concepts, is generally considered to have taken place in Marx's mind, while his exposition reflects the way out, the way leading from the simplest abstractions to progressively higher levels, i.e. the way of approaching the concrete form in which abstract laws and concepts are manifest.

This view on the internal structure of *Capital* and the method of exposition employed in it was popularized in 1930s by David Rozenberg in the renowned and repeatedly published commentary to K. Marx's *Capital*.¹⁶ Włodzimierz Brus's view, quoted by Oskar Lange, is clearly influenced by Rozenberg. In *Capital's* structure Brus identified 'the ascension, transition from simple to complex forms, from lower to higher levels. Each following category considered by Marx in *Capital* somehow contains the previous one, includes new elements to the characteristics of the latter, elevates it to a higher level of reality'.¹⁷ He argued that the first volume of Marx's work constitutes a 'step-by-step ascent from abstraction to progressively higher levels of concreteness'¹⁸ and this was to apply to the other volumes as well. In the first volume capitalist production is analysed; in the second. the process of capital circulation; in the third, Marx presents the analysis of the capitalist production process as a whole, i.e. as an identity of the process of production and circulation, the unity of content and form. From Brus's paper it could have only been concluded that he thought that the successive volumes of *Capital* contain analysis at successively higher levels of reality. Paul Sweezy¹⁹ and subsequently Oskar Lange²⁰ state this *expressis verbis*.

Such an interpretation of Marx's method of exposition is excessively one-sided. It seems that Rozenberg avoided such far-reaching one-sidedness. Although he did write that 'in *Capital*, the analysis is conducted all the time ascending from the abstract towards the concrete',²¹ he simultaneously emphasized that the argument in the second volume

of *Capital* is 'of the most abstract character'.²² He elaborated upon this view in one of the later editions of *Komentarze*, after one of the reviewers of the first edition expressed a contrary opinion.²³ Nevertheless, the persuasive power of Rozenberg's thesis about the most abstract character of the argument contained in the second volume of *Capital* is weakened by the fact that the author justified this highest level of abstract reasoning solely from the point of view of different levels of abstraction at which the capitalist mode of production is analysed. He wrote that in the second volume Marx analyses forms 'which capital either adopts or rejects in the course of its movement. Specific features of these forms, their unity and their differences, the forms of movement of the individual parts of capital, the form of movement of aggregate social capital – all this is the subject of the second volume. Through this, the fact that investigation in the second volume has the most abstract character is also explained'.²⁴ Nowadays, a much more serious argument supporting his thesis seems to be the fact that, in the second volume of *Capital*, Marx most consistently, and to the greatest extent, employs the method of simultaneous analysis of the general (simple) process of human labour and its capitalist form, i.e. the process of value creation. The key to understanding the second volume of *Capital* is the fifth chapter of the first volume, where Marx nevertheless analysed the labour process (the first point of the chapter) and the process of value creation (the second point) separately and not through their mutual relation. In the first volume, Marx formulated some of the most general concepts of political economy (means of labour, labour, means of production, instruments, subjects of labour). In the second volume, he significantly enriched the range of general economic concepts with the notion of turnover, labour time, production time, circulation time, costs of circulation, reserve fund etc., as well as with concepts referring to social reproduction, thereby laying the foundations of the general theory of political economy.

At this point, it can be added that within the second volume, the last (third) part contains analysis at the highest level of abstraction. Without going into a detailed discussion of Marx's method of exposition, we want merely to indicate that ascending from the abstract to the concrete is one of the methods of exposition in Marx's *Capital*. Although this method is dominant, the way of generalizing actual reality, the way of arriving at abstract concepts is also directly manifest in *Capital*. For example, the method of exposition leading from specific issues to the general concept of gross social capital and to the even more general concepts of simple and enlarged reproduction. This 'inconsistency'

in Marx's method stems simply from the fact that, due to the complex nature of the capitalist mode of production, its analysis cannot be presented in such a way that each subsequent category contains the previous one, elevating the previous one to a higher level of concreteness. Only a very abstract model-type construct could be presented in rigorous conformity to the method of passing from the abstract to the concrete. However, this is usually at the cost of losing touch with a diverse and extensive reality.

2

The significance of the reproduction schemes as a general theoretical formula was initially recognized in relation to the practical needs of planning the socialist economy, as well as with growing understanding of the need for theoretical generalization of this economy.

The brief history of this issue is as follows. In 1920, Bukharin's book *Ekonomika perekhodnogo peryoda* appeared in the USSR. In this book, Bukharin denied the existence of any economic categories and problems that did not concern the commodity economy or the capitalist commodity economy. Under the traditional assumption that the socialist economy is a natural economy, he concluded that the need for political economy disappears under socialism. Literally: 'Theoretical political economy is a science of social economy based on commodity production, i.e. the science of an un-organised economy. Hence if we consider an organised social economy, all the fundamental problems of political economy disappear'.²⁵ Furthermore, Bukharin did not identify the main problems of reproduction and supra-capitalist significance of Marx's reproduction schemes. It was precisely these theses of Bukharin that evoked Lenin's objection. In the margin of the first of Bukharin's sentences quoted above, Lenin drew attention to the fact that the proposed definition of economics marked a step backwards relative to Engels' definition, and added that a commodity economy is also 'organized'. Slightly further he noted that political economy was concerned not only with the commodity economy; in the margin of the sentence on the disappearance of all problems of economics in an organized economy, which was to lead to the disappearance of economics under socialism, Lenin wrote: 'Neverno [which can mean both "incorrectly" and less categorically – "inaccurately" or "not entirely"]'. In communism as well, for instance relation of I ($v + m$) to IIc as well as accumulation.²⁶ Lenin's remarks were first published in 1929. Lenin's statement above gave rise to frequent interpretation and comment. It was most often (in fact commonly)

concluded that in this brief statement Lenin propagated the necessity of the existence of political economy as a science not only under socialism, but even in the conditions of advanced communism. This interpretation goes too far for two reasons. Lenin does not mention at all that there should be a separate science and that it should be of political (social) character. Second, precisely in this period of so-called war communism, Lenin used the concept communism in a very specific context, often relating this term to the reality of that time. It should suffice to quote the following assessment of what Lenin only occasionally called war communism (this name was only universalized by Stalin), the assessment articulated already in the era of new political economy: 'We expected ... to be able to organise the state production and the state distribution of products on communist lines in a small-peasant country directly as ordered by the proletarian state. Experience has proved that we were wrong. It appears that a number of transitional stages were necessary – state capitalism and socialism – in order to *prepare* – to prepare by many years of effort – for the transition to communism'.²⁷

Slightly later, in 1921, in other notes forming the initial outline of the article on 'the commercial point of view', Lenin returns to the formula $c + v + m$, as well as to m as the source of accumulation, relating it to the essence of the state and emphasizing the 'general theoretical' character of this formula.²⁸

At the same time, Lenin demanded from the statistical bureau and the planning committee that 'a kind of index number must be prepared by which to appraise the state of our entire economy'.²⁹ Perhaps in relation with these appeals of Lenin, Gosplan initiated the study of the national balance sheet for the years 1923–1924. The starting point and the basic construction of this balance sheet were already in Marx's schemes. From the main ideas of Marx's reproduction schemes, and from the experience of preparation of the Soviet national economy balance sheet, stems, as known, the *input-output analysis* of Vassiliy Leontief, who at that time worked at Gosplan and who published his acclaimed theoretical concept in the late 1930s, by then an American economist.

The next phase of interest in Marx's reproduction schemes is related to the works and discussion over the first Five Year Plan. On the basis of Marxian assumptions, the first model of economic growth in socialism by G.A. Feldman appeared in this period.³⁰ In 1920s, it was the only attempt at a theoretical use of the Marxian construct for the analysis of a socialist economy known today. However, even this attempt soon became entirely forgotten. It was rediscovered in the 1950s by the American economist E.D. Domar.³¹

With the exception of planning, for which Marx's reproduction schemes have long been the starting point, although it was not always nor everywhere conscious, up until the beginning of 1950s they did not attract the attention of theorists of the socialist economy. As late as 1952, J. Stalin deemed it necessary to remind Soviet economists that:

Marx's scheme of reproduction does not begin and end with a reflection of the specific character of the capitalist mode of production, that it at the same time contains a whole number of fundamental tenets on the subject of reproduction which hold good for all social formations, particularly and especially for the socialist social formation. Such fundamental tenets of the Marxist theory of reproduction as the division of social production into the production of means of production and the production of means of consumption; the relatively greater increase of production of means of production in reproduction on an extended scale; the correlation between Departments I and II; surplus product as the sole source of accumulation; the formation and designation of the social funds; accumulation as the sole source of reproduction on an extended scale – all these fundamental tenets of the Marxist theory of reproduction are at the same time tenets which hold good not only for the capitalist formation, and which no socialist society can dispense with in the planning of its national economy.³²

While it is true that at that time Stalin was not entirely isolated in recognizing the general content contained in Marxian reproduction schemes, a lively discussion around the reproduction schemes began partly under the influence of his work.

Initially, the discussion concerned, almost exclusively, the issue of the so-called primacy of department I [producing means of production] over department II [producing means of consumption] under extended reproduction. This in fact led to an increasingly widespread rejection of this alleged principle. Perhaps it was an attempt to give this principle a universal character that explains why Stalin, who pushed the understanding of the historical character of laws to the extreme,³³ so strongly emphasized the general significance of the reproduction schemes.

Only in the second half of the 1950s did the consideration of the universal or socialist content of this theoretical construct of Marx, or considerations taking it as the starting point, transform into a broad strand of economic or econometric literature.³⁴ The stimuli for this arose from the internal logic of the development of needs of the planned economy,

theories of programming developed in the West, as well as contemporary theories of economic growth. The first exposition of the general theory of reproduction was published as late as in 1961.³⁵ In this light, F. Quesnay's *Tableau économique* evoked renewed interest.³⁶ The above outline of the history of the Marxian reproduction schemes requires one supplement: Rosa Luxemburg's contribution to retrieve this part of Marx's theory from oblivion.

Organizing the first chapter of the popular exposition, Rosa Luxemburg, as we have already written, was still convinced that economics had reached 'its summit and its limits' in Marx's theory and could only therefore be developed by his successors 'in its details'. While working on the last chapter devoted to the tendencies of capitalist development, she became convinced of the need to fundamentally renew the analysis of the crucial problems of the capitalist system, stemming from phenomena disclosed by the new phase of capitalism.

The change in the attitude towards the theoretical legacy of Karl Marx is manifest in the change of attitude towards *Capital*. In *Introduction to Political Economy*, R. Luxemburg employed the method, which Marx utilized in the first volume of *Capital*.³⁷ As in this part of Marx's book, as well as in the first and the second part of the second volume of *Capital*, the starting point of Rosa Luxemburg's argument was the analysis of 'individual capital'. The breakthrough in her economic views at that point amounted to understanding the significance of the Marxian schemes of reproduction. At the outset of writing the *Accumulation of Capital*, she was simply fascinated with Marx's method employed in the third part of the second volume of *Capital* entitled 'The reproduction and circulation of the aggregate social capital', as well as with Marxian reproduction schemes contained in this part. Furthermore, in this part of Marx's work lies the methodological and thematic origin of her outstanding work. Rosa Luxemburg tended to evaluate through the schemes all previous economic literature and thought. In this theoretical construct, she identified the most perfect manifestation of the method of abstraction (dialectical deduction) and the most important analytical tool of political economy in general.

To this fascination with Marxian reproduction theory, witness the first sentences of her work:

Karl Marx made a contribution of lasting service to the theory of economics when he drew attention to the problem of the reproduction of the entire social capital. It is significant that in the history of

economics we find only two attempts at an exact exposition of this problem: one by Quesney, the father of the Physiocrats, at its very inception; and in its final stage this attempt by Marx. In the interim, the problem was ever with bourgeois economics. Yet bourgeois economists have never been fully aware of this problem in its pure aspects, detached from related and intersecting minor problems; they have never been able to formulate it precisely, let alone solve it. Seeing that the problem is of paramount importance, their attempts may all the same help us to some understanding of the trend of scientific economics. (p. 3)

The final words are characteristic. The attitude towards the issue of reproduction on the macroeconomic scale becomes her fundamental criterion of theoretical-historical assessment. For this reason, she honoured Quesnay with the name of the founder of political economy as an exact science (*Anti-Critique*, p. 48). She wrote about scientific economics in the same spirit, since the construct of Quesnay–Marx was in her view the perfect example of a ‘strictly scientific approach’ to any issue. Quesnay–Marx’s scheme showed that also in bourgeois society, despite its internal chaos and the apparent wilfulness, economic processes ‘are as much determined by strict laws as the processes of physical nature’ (*Anti-Critique*, p. 48).

Using the theory of Rodbertus as an example of how all pre-Marxian economics tottered along trying to reconcile the analysis of the labour process from the material angle with the value approach to capitalist production, as well as the forms of movement of individual capital with the forms of movement of aggregate social capital (p. 241), she wrote about Marx: ‘That is the context in which Marx’s penetration appears in its true light. His diagram of simple reproduction illuminates the entire problem by gathering up all these perspectives in their harmony and their contradictions, and so resolves the hopeless obscurities of innumerable tomes into two rows of figures of striking simplicity’ (p. 241). The same criterion of assessment – mature depiction of the issue of reproduction – causes her to criticize Smith not because he lost the specific features of bourgeois society in the universal categories, but because ‘the specifically capitalist function of wage labour in the productive process completely obscured for him the eternal and universal function of the means of production within the labour process’ (p. 45).

Proceeding to answer the question why in the analysis of this issue there was a marked step backwards relative to Quesnay’s approach,

as well as how Marx was able radically to advance the analysis, Rosa Luxemburg emphasizes the Marxian discovery of the dual character of value-creating labour. This ingenious idea of Marx's theory of value enabled him to differentiate and integrate both points of view in the total reproduction process (p. 77).

The two-fold character of labour became manifest in Marx's distinction and depiction of the two fundamental departments of social production in the scheme, the department producing the means of production and the department producing the means of consumption. It was only due to this fundamental insight that the analysis of the issue of social reproduction became possible.

Rosa Luxemburg was not alone in the fascination with the Marxian construct of reproduction schemes. There remained under the influence of this construct, as we have indicated, a significant part of the economic literature of the Russian legal Marxists (particularly Bulgakov and Tugan-Baranovsky), as well as the first economic works of Lenin, including his *Development of Capitalism in Russia*. But they appreciated this construct because, in their view, it resolved the issue of reproduction and realization for the capitalist economy. Rosa Luxemburg was the only economist known to me who recognized the universal, common, supra-capitalist character and significance of this theoretical construct before the First World War, and what is perhaps more important, that these schemes would also be applicable to the socialist economy. She developed this idea repeatedly and in detail.

Marx's scheme 'corresponds with the universal and absolute foundation of social reproduction' (p. 57), since it contains numerous precisely defined relations referring to both 'specific capitalist categories and also, *mutatis mutandis*, to the general categories of human labour' (p. 76). The scheme lays down in his proportions a precise foundation of the social division of labour for 'a planned production' (p. 76). Emphasizing that the proportions of these schemes were not mere mathematical exercises, nor were they conditioned exclusively by the commodity form of production, Rosa Luxemburg noticed that a simple way to prove this would be to conduct the analysis of proportions on the basis of socialist economy, where exchange is replaced with the social division of labour. Furthermore, in this system, labour is divided between production of the means of production and production of the means of consumption. 'Let us further imagine the technical development of labour to be such that two-thirds of social labour are employed in the manufacture of producer goods and one-third in the manufacture of consumer goods' (p. 101).

On the basis of this assumption she gave the socialist specification of Marx's most famous numerical scheme:

$$\text{I } 4000c + 1000v + 1000s$$

$$\text{II } 1000c + 500v + 900s$$

Rosa Luxemburg calculated as follows: 1500 work units (which can be days, months or years) are devoted to maintain the whole working population of the society. Out of this, two-thirds fall onto department I and a half on department II; each year means of production produced earlier are used in a sum of 8000 work units. Twice as much is devoted to maintain all those who do not work ('in the material, the productive sense'), that is children, elderly, the sick, civil servants, artists and scientists, as well as to a certain reserve fund as a protection against random events necessary for any civilized society. In such interpretation, c – signifies the used-up material means of production expressed in the socially indispensable labour time, v – the labour time necessary for those who work, m – the labour time socially indispensable to maintain those who do not work as well as to establish the insurance reserve fund (pp. 101–2).

Hence, when production is conducted according to a plan, and when production is to satisfy the needs of society, the precise numerical proportions maintain their full significance. The product of department I has to be equal to the sum of Ic and IIc as all means of production used by the society in the course of the annual labour process need to be renewed every year in department I. Product of department II has to equal the sum of surplus value and wages in both departments:

$$c_1 + v_1 + m_1 = v_1 + m_1 + v_2 + m_2$$

Since every year society produces as much means of consumption as are required by society, including the reserve fund. These proportions are equally natural and inevitable 'for a planned economy as they are for a capitalist economy based upon anarchy and the exchange of commodities. This proves the diagram to have objective social validity, even if, just because it concerns *simple* reproduction, it has hardly more than theoretical interest' (p. 102, emphasis in the original).

Rosa Luxemburg conducted a similar operation on the so-called second Marxian scheme of enlarged reproduction, turning the scheme around so that in the case of socialism, she began the whole analysis from the second department, i.e. taking the growth of population and

its needs as a starting point. She obtains a regulated economy, where the annual labour of the society is divided in such a way that half of it is devoted to maintain the working population, 25 per cent – to maintain those who do not work, and the remaining 25 per cent – to expand production in the following year.

These procedures lead Rosa Luxemburg to the conclusion that expansion of production is possible in any society, also in the regulated one, only when:

1. The society manages a growing labour force.
2. Direct maintenance of the society does not consume the entire labour time, so that part of this time can be dedicated to taking care of the future and its growing needs.
3. Year by year, a growing amount of the means of production is produced, without which the conditions of reproduction on the extended scale cannot be met. (p. 103)

Her views on the rate of growth of production in departments I and II when technical progress is taken into account, constitute a significant supplement to the analysis of the reproduction schemes as applied to the socialist economy. We already know that Rosa Luxemburg opposed the view of Bulgakov and Tugan-Baranovsky (as well as Lenin), who maintained that the more rapid growth in department I relative to II (or *c* relative to *v*) is a feature characteristic solely of capitalism. Furthermore, she opposed Kautsky's view, who argued that the faster growth of production of the means of production is not possible in the long term. If this happens, then it can only be in the old industrial countries, which should be explained by a specific configuration of the international division of labour. Disputing with these authors, she claimed that faster growth of department I was a general economic principle characterizing all socioeconomic formations, while under socialism this process would take place much more rapidly than in capitalism. This is because the high barrier to technological progress, in the form of capitalist profit motive, substituting only the profitable part of labour with machines, disappears, while a larger scope is opened for the mechanization of agriculture.

It would show that as soon as these limits are abolished, technical progress will develop such a powerful drive that the technical marvels of capitalist production will be child's play in comparison. In terms of the composition of the social product, this technical transformation can only mean that, compared to the production of consumer goods, the

production of producer goods – measured in units of labour time – must increase more rapidly in a socialist society than it does even to-day. Thus the relation between the two departments of social production which the Russian Marxists took to reveal typical capitalist baseness, the neglect of man's need to consume, rather proves to be the precise manifestation of the progressive subjection of nature to social labour, which will become even more striking when production is organised solely with a view to human needs (p. 302).³⁸

In summary, one can state as follows:

1. Rosa Luxemburg was the first economist to draw attention to the universal character of Marxian reproduction schemes, recognizing in them the theoretical framework of the entire scientific economics up to that time and in the future.
2. Furthermore, she was the first to apply this theoretical construct to the economic analysis of socialism, regarding it as a fundamental tool of economic planning, as well as the focal point of the fundamental economic decisions of the socialist society.
3. In the light of the clear evolution of Rosa Luxemburg's economic views on the issues directly related to the essence and main tasks of political economy as a science, the prognosis stated twice in *Introduction to Political Economy*, namely that political economy would disappear along with the collapse of the capitalist economy, should not be treated as a fundamental element of her economic views. In this light, *Accumulation of Capital* seems to be a criticism of her previous opinion, which she clearly no longer held.³⁹ In the light of the immense theoretical significance of the reproduction schemes for the theoretical problems of socialism, Rosa Luxemburg's views, quoted above, seem to be a robust basis for regarding the author of *Accumulation* as a pioneer of the theory of the political economy of socialism.

Appendix II: Critics and Heirs of Rosa Luxemburg

1

Although the criticism received by the *Accumulation of Capital* was very negative, it was usually limited to an argument that Rosa Luxemburg had taken up a non-existent problem: until, in the 1920s, it was confined to an exclusively negative criticism of her work.¹

The only exception was the leading theorist of 'Austromarxism' Otto Bauer, who presented his own model of capital accumulation in critical articles published in *Neue Zeit*.² His reasoning was as follows. The fundamental problem of economic equilibrium is the adaptation of production apparatus to the population growth rate. If we assume a socialist society facing a 5 per cent population growth in the next year, then already this year it will strive towards a proportional (5 per cent) growth of production of the consumption goods, as well as to increase production for the sake of employment of the increased number of workers. The planning authorities ensure that production and the means of consumption expand in line with population growth. Under capitalism, there are no such authorities and accumulation depends on the will of capitalists. It can either lag behind or overtake population growth.

Bauer created such reproduction schemes which showed that, under the aforementioned population growth rate, and a 10 per cent growth of constant capital, the rate of accumulation has to increase every year. This is the fundamental condition of equilibrium, which becomes even more complicated when technical progress (at that time identified as increase in the organic composition of capital c/v) is introduced into the two-sector reproduction schemes. From Bauer's schemes it follows that department I (production of the means of production) has to grow more rapidly than department II. Furthermore, after the basic rounds of

inter-sectoral exchange, a certain amount of the means of consumption is left over. Hence, capitalists in this department need to transfer part of their profits to department I: either they themselves establish factories producing the means of production or they lend an adequate amount to the capitalists in department I through banks.

Thus, the rate of accumulation needs to grow as rapidly as is required to secure the needs of an increasing population. At a lower rate, under-accumulation (*Unterakkumulation*) takes place, and manifests itself in the growth of unemployment. Nonetheless, unemployment triggers a fall in wages equivalent to an increase of the rate of exploitation. Wages fall until all workers find employment again. Similarly, over-accumulation (*Überakkumulation*) is eliminated by the same mechanism working in the opposite direction (increase in wages). Capitalists in the countries characterized by persistent over-accumulation (France and Britain with low birth rates) are forced to export capital, while import of capital (or export of labour) is typical of countries characterized by high population growth.

The aforementioned equilibrium mechanism explains why capitalists are worried about population rates, as they narrow the limits of growth of their capital. Bauer's conclusion is self-evident: in the socialist system, social authorities managing production would consciously, and according to the plan, ensure the growth of production proportional to population growth. In capitalism, these proportions can only be established through crises and unemployment, a fall in the movement of prices and wages, the idleness of capital and changes in the profit rate.

The reader familiar with the fundamentals of modern business cycle theories, related to names such as J.M. Keynes, J. Robinson, M. Kalecki, will not have any difficulty in indicating the basic drawback of the automatic economic equilibrium mechanism described by Bauer. Wage reduction can lead to the exacerbation of crisis through decreasing aggregate demand. Bauer's fundamental thesis coincides with the conservatives' views, who have long argued that trade unions are responsible for unemployment through making wages 'rigid'.³ Bauer himself rejected his idea of automatic equilibrium in the inter-war period. In his study on the rationalization of labour in the main capitalist countries, written during the Great Depression,⁴ he argued that this rationalization, leading to a contraction of the wage fund and hence of monetary demand, was one of the fundamental causes of the Great Crash. Furthermore, in the appendix to his outstanding 1936 book,⁵ he attempted to produce a theoretical formulation of the principle of effective demand.

Coming back to Bauer's 1913 growth model, it can be noticed that after rejecting the equilibrium mechanism this model is one of the first attempts at formalizing (and formulating) a general theory of economic growth. However, as with many modern growth theories, the methodological approach of starting from general (supra-systemic) conditions of growth and later including specifically capitalist factors led Bauer to underestimate the importance of those factors as merely complicating those general conditions.

Nevertheless, it is interesting that the schemes developed by Bauer provided a mathematical construction for the different, extremely mechanistic theories of capitalist breakdown developed by Fritz Sternberg and Henryk Grossmann. Their sensational dispute was the last attempt at seeking purely economic causes of the fall of capitalism.

2

Fritz Sternberg presented his theory of the limits of capital accumulation in his book *Der Imperialismus*, published in 1926. Its restatement and anti-critique are contained in Sternberg's second book.⁶ Introducing himself as a supporter of Rosa Luxemburg's theory of accumulation, the author set himself the task of freeing this theory from weaknesses and errors. He wrote that Rosa Luxemburg's merit was the discovery of the relationship between capitalist expanded reproduction and the imperialist expansion into non-capitalist areas. In his view, the *Accumulation of Capital* had an epochal significance for the further development of Marxism. At key points, he regarded as correct not only her view on the economic sources of imperialism, but also her critique of the Marxian reproduction schemes. He regarded as equally correct the conviction of the author of *Accumulation* that 'pure capitalism' would have to break down shortly. On the other hand, in his view, there are certain significant errors in connecting criticism of the Marxian reproduction schemes with the above conclusions. The main difference between his and Rosa Luxemburg's position was that, while the author of *Accumulation* argued that the whole accumulated part of surplus value had to be realized outside 'pure capitalism', he argued that realization difficulties were caused only by that part of surplus value that is accumulated. He adopted, as the theoretical basis of his approach, the reproduction scheme constructed by Bauer, incorporating the growth of the organic composition of capital as the manifestation of (one type of) technical progress. There arises, in this scheme, a phenomenon of the so-called consumption residue (*Konsumptionsrest*), increasing year by year. It consisted of the

produced means of consumption for which there was no demand, due to an increase in constant capital, i.e. production equipment, at the cost of limiting employment. For Bauer, the only conclusion from this was that part of capital had to be transferred from department II to I. Sternberg argued (undoubtedly incorrectly) that such a solution was impossible among other reasons because of the material form of that part of capital. Exchange with non-capitalist environment could be the only solution to this problem. Hence, capitalism cannot exist without this environment. Its disappearance must necessarily mean the collapse of capitalism.

According to Sternberg, faith in the magical power of mathematical formulas is absurd to such extent that the theory based on this belief does not require criticism. It is merely another sad example of the extent to which heirs can render disservice to the works of their masters. Here, the progress of the analysis amounts to a drastic reduction of bold hypotheses and the search, full of creative effort and amazing intuition, for conclusions that are both shallow and erroneous, although mathematically 'rigorous', and that arise from the lack of flexibility in the thinking of the heirs.

The second theorist of the 'breakdown', Henryk Grossmann,⁷ did not do much better. He engaged in a passionate dispute with Rosa Luxemburg and particularly with Sternberg, pointing out numerous weaknesses in their theories of realization. Already with a significant output as an economic historian,⁸ statistician and a historian of economic doctrines, Grossman embarked on explaining the necessity of the fall of capitalism.

His extensive work *The law of accumulation and breakdown of the capitalist system*⁹ appeared in 1929 in German and later in a Japanese translation. It has been recently republished in Germany. Grossmann's book was supposed to be the first part of a trilogy aiming to reconstruct the method of the author of *Capital* and to depict on this basis the developmental tendencies of modern capitalism. The main idea of Grossmann's theory is apparent in the title of his work: the law of capitalist breakdown is a logical consequence of the law of capital accumulation. Of course, he was most deeply convinced that he merely reproduced the major essence of Marx's theory. Rejecting both rational and irrational elements of the argument of H. Cunow, R. Luxemburg and F. Sternberg, who linked the problem of capitalist breakdown with the disappearance of a non-capitalist environment, Grossmann argued that the pure, isolated capitalist system was in itself able to exist and develop. Accumulation with a simultaneous growth of the organic composition of capital (accelerated accumulation), which is a specific form

of the development of the productive force in capitalism, can develop uninterruptedly in the system of pure capitalism at least for some time. However, the pace of accumulation needs to correspond to the growth of the population and to the technical development of productive labour power. Furthermore, certain proportions between the fundamental spheres of production need to be preserved. Hence, the non-capitalist environment is not necessary for the realization of surplus value, as was erroneously argued by Rosa Luxemburg and Fritz Sternberg.

However, in Grossmann's view there is a limit beyond which not only accumulation but also the entire existence of the capitalist system becomes impossible. Due to the immanent laws of its development the capitalist system moves towards that limit and hence towards breakdown. This boundary is defined by the disappearing possibility of reproducing capital in a predetermined proportion, which results from the fall in the rate of profitability. The actual and ultimate cause of breakdown is the lack of possibility of capital realization ('die mangelnde Verwertung des Kapitals') due to absolute 'over-accumulation'. This can be explained as follows: in the course of the accelerated accumulation, constant capital (c) expands and the part of capital accumulated yearly grows more rapidly than variable capital (v). However, surplus value consisting of capitalist accumulation and consumption ($a + k$), grows only proportionally to wages (v). At a certain level of accumulation, surplus value is no longer sufficient to enlarge production accordingly to population growth and the technological requirements, as to maintain the dynamic equilibrium of the system. This results in insufficient accumulation, the emergence of a reserve army of labour, and so on.

When there is not enough surplus value to serve increasing accumulation, there is also insufficient surplus value for private capitalist consumption. Consequently, the incentive to produce is destroyed. The produced means of production will not be used at all. In this case, demand for the means of production is lacking, variable capital depreciates, crises become increasingly acute and the total breakdown of the system occurs.

The working out of the law of capitalist collapse (formulated as an abstract model) is, in Grossmann's view, modified by numerous factors, out of which some accelerate the breakdown process, while other delay it; however, these factors cannot override the law itself. Periodical crises of capitalism are interrupted by over-accumulation. Later in the reproduction process, counter-tendencies become progressively weaker, while the periods of boom become shorter and crises become more violent. Breakdown becomes inevitable.

Grossman argued that imperialism was not the struggle for markets but a struggle for the areas for capital investment. These areas consist of underdeveloped countries characterized by the lowest organic composition of capital levels, but also by profit rates higher than in advanced countries. Exchange in the international market takes place not according to value but according to prices of production. There is a tendency towards the emergence of an average rate of profit on an international scale that is higher than within the advanced countries. Hence, foreign trade improves the conditions of capital realization.

Apart from Fritz Sternberg, many other authors participated in the dispute around Henryk Grossmann's theory: Helena Landau-Bauer, Alfred Braunthall, Hans Neisser, Otto Benedikt and Eugene Varga. It is astonishing how insignificant were the results of a debate, initiated on incorrect grounds.

Part II

Imperialism and the Theory of Accumulation

6

The Historic Conditions of Capital Accumulation

We recall Rosa Luxemburg's critical remarks on the Marxian analysis of capitalism: the accusation of ignoring the role of money in the reproduction of total capital; assuming identity between production and conditions of realization as well as between realization and accumulation of surplus value; the omission of growth of the organic composition of capital, etc. Her criticisms concerned either exclusively the expanded reproduction scheme or the form of analysis that we find in the last part of the second volume of *Capital*. Her frequent argument was that the Marxian analysis of reproduction and of the circular movement of aggregate social capital contained in the II volume of *Capital* contradicts the analysis found in other parts of Marx's work.

The matter is different when it comes to her general accusation that Marx disregarded the non-capitalist environment. The statement that Marx 'consistently and deliberately assumes the universal and exclusive domination of the capitalist mode of production as a theoretical premise of his analysis' (p. 328), concerns Marx's work as a whole, i.e. all three volumes of *Capital* as well as *Theories of Surplus Value*. Rosa Luxemburg argued as follows. Since pure capitalism does not exist and has never existed, such an assumption can only be treated as auxiliary, allowed only in the case where it does not alter the conditions of the problem itself, but where it merely facilitates the analysis in its pure form. It is completely acceptable, for example, in the analysis of the simple reproduction or the expanded reproduction of individual capital. However, such analysis is not acceptable in the analysis of capital accumulation in the aggregate. In this matter, Marx proceeded differently, not only because *Capital* remained unfinished. The drawback of Marx's analysis is embedded much deeper. Referring to a certain statement in *Theories of Surplus Value*, Luxemburg maintains that in reality,

for Marx 'the assumptions which were decisive in the case of individual capital, are also legitimate for the consideration of aggregate capital' (pp. 329–30). This is the only reason why Marx could have overlooked the fact that the process of aggregate capital accumulation is related to the pre-capitalist modes of production in all its qualitative and material relations. These links concern not only the problem of realizing surplus value, but also constant and variable capital.

Capitalism cannot limit itself to producing the means of production (constant capital) in a capitalist way. Rosa Luxemburg proved this thesis by referring to the history of (particularly British) capitalism on the one hand and to theoretical arguments on the other. The striving of capitalists towards cheapening the elements of constant capital, in order to increase the rate of profit, as well as towards sustained increases in labour productivity as the most important method of boosting profit rates assumes 'unrestricted utilisation of all substances and facilities afforded by nature and soil. To tolerate any restriction in this respect would be contrary to the very essence of capital, its whole mode of existence' (p. 338). The 'essence' and 'mode of existence' are, unfortunately, not clear concepts. The following sentence sounds equally obscure, although more categorical: 'From the very beginning, the *forms* and *laws* of capitalist production aim to comprise the entire globe as a store of productive forces' (p. 338, emphasis by – T.K.). This conclusion is followed by the statement that, until then, capitalist production was confined primarily to the industries of countries in the temperate zone. Hence, if capitalism was confined exclusively to the means of production available in this narrow zone, its current size and development 'would have been impossible'.

Nonetheless, in the end, Rosa Luxemburg reduces the significance of the elements of constant capital obtained in external markets to the fact that they increase the flexibility of capitalist production, allowing it to develop in abrupt shifts, which should be naturally accepted as a rational explanation. 'The process of accumulation, elastic and spasmodic as it is, requires inevitably free access to ever new areas of raw materials in case of need, both when imports from old sources fail or when social demand suddenly increases' (p. 338).

A similar function is fulfilled by capital's relations with its pre-capitalist environment when it comes to variable capital, i.e. labour force exploited in a capitalist way. Rosa Luxemburg maintains that, according to Marx, the basis of capitalist accumulation is formed by natural population growth, on the one hand, and the 'industrial reserve army of workers', described in the first volume of *Capital*, on the other. Nevertheless, she regards such a solution as insufficient, since it does not explain the

ability of capitalist production to expand rapidly. 'The natural propagation of the workers and the requirements of accumulating capital are not correlative in respect of time or quantity' (p. 341). In terms of the reserve army, she includes in it (following Marx) producers cast off by the capitalist production process, i.e. those who formerly constituted occasional labour. In the same way, Marx depicts the process of workers' influx from rural to urban areas. These workers previously functioned as a labour force in capitalist agrarian enterprises and are now under the command of industrial capital. The process described reflected, in the author's view, the British situation and thus conditions at a high level of capitalist development. 'He [Marx – T.K.] ignores, however, the problem which is of paramount importance for conditions on the continent of Europe, namely the sources from which this urban and rural proletariat is recruited: the continual process by which the rural and urban middle strata become proletarian with the decay of peasant economy and of small artisan enterprises. ... Besides the decay of European peasants and artisans we must here also mention the disintegration of the most varied primitive forms of production and of social organisation in non-European countries' (p. 342).

Engaging in a dialogue with Marx, Rosa Luxemburg recalled that in the 24th chapter of the first volume of *Capital*, on the genesis of British capitalism in towns and in the countryside, Marx described in detail both the process of appropriation in the areas of non-capitalist means of production and the process of transformation of peasants into wage labour. Furthermore, he did not forget to emphasize the significance of looting colonial countries for the emergence of English capitalism. However, Marx depicted these processes exclusively from the point of view of so-called primitive accumulation, i.e. exclusively from the point of view of the genesis of capital, capital's 'first appearance in the world'. In Marx's understanding, they depict merely the birth-pains through which capitalism emerges from its womb of the feudal society. However, Marx does not take up these issues when he moves on to theoretical analysis, upholding the assumption of the universal domination of capitalism. On the other hand, in Rosa Luxemburg's view, even mature capitalism is in all aspects linked with the non-capitalist environment. This is why the accumulation of capital cannot be understood when one takes up this abstract assumption, 'since the accumulation of capital becomes impossible in all points without non-capitalist surroundings' (p. 345).

After repeated assurances that the necessity of non-capitalist surroundings as a reserve of the means of production and labour force for

the accumulation of capital follows from the essence of capitalism and its laws, Rosa Luxemburg is finally forced to admit that the actual historic form of economic relations in the world is decisive in this case. It simply means that 'the overwhelming majority of resources and labour power is *in fact* still in the orbit of pre-capitalist production', and this is why 'capital must go all out to obtain ascendancy over these territories and social organisations' (p. 346). 'There is no *a priori* reason', writes Rosa Luxemburg, 'why rubber plantations, say, run on capitalist lines, such as have been laid out in India, might not serve the ends of capitalist production just as well' (p. 346). These observations are correct but they drastically undermine her previous formulations, announcing a new theoretical content in Rosa Luxemburg's analysis.

It is only the relations of capitalism with its historical surroundings in terms of surplus value realization that present an entirely different type of economic relationship. 'Here [i.e. for the realization of surplus value – T.K.] outside consumers *qua* other-than-capitalist are really essential. Thus the immediate and vital conditions for capital and its accumulation is the existence of non-capitalist buyers of the surplus value, which is decisive to this extent for the problem of capitalist accumulation' (p. 346).

Let us nevertheless bring Rosa Luxemburg's claim of the impossibility of surplus value realization in pure capitalism to a more realistic and rational basis.

Rosa Luxemburg repeatedly writes as if she was concerned with the realization of surplus value in general. However, there is no doubt that she has usually in mind the accumulated part of surplus value, arguing that the part which is consumed by capitalists themselves does not pose any major problems for the issue of realization. If she repeatedly declares the difficulty in realizing surplus value as such, it is only along with the assumption, which, although stated only once, is implied at all times, namely that 'for simplicity's sake' (p. 332) she ignores altogether the capitalist consumption reserve-fund. Furthermore, she assumes that this reserve-fund, depicted in terms of value, tends to be maintained at a constant level. This would mean that an increase in the living standards of the capitalist class takes place only within the limits set by the loss of value of goods consumed by this class.

Rosa Luxemburg attempted to answer the question which part of surplus value in non-capitalist environment is the subject of realization. However, her answer is not straightforward. For instance, in one place, she emphasized that, under capitalism, at least the accumulated part of surplus value and its corresponding portion of production had to be realized outside the capitalist sphere. 'In reality, nothing forces us to

assume that there is not a fraction of the constant and variable capital which is also realised out of the capitalist realm. Accordingly, the expansion of production as well as the replacement in kind of the materials consumed in production may be undertaken by means of products from the non-capitalist sphere' (p. 339).

However, does the entire accumulated part of surplus value pose insurmountable difficulties for realization in conditions of pure capitalism? Discussion of this issue in Rosa Luxemburg's work resembles a maze of obscurity. In her reproduction schemes, she assumes that expanded reproduction, along with the growing organic composition of capital, inevitably leads capitalist production to a permanent surplus of the means of consumption. This surplus can be realized outside the realm of capitalist production, simultaneously solving the problem of the means of production deficit. However, in the next chapter, the problem of disproportionality is depicted in a much more empirical way and two scenarios are considered on equal terms – the significance of non-capitalist surroundings for the accumulation of capital when a given capitalist country produces a surplus of the means of production; and the scenario when capitalism produces a surplus of the means of consumption (pp. 332–5). In both these cases, as well as in the later polemic with Bauer, Rosa Luxemburg deals with the issue of realization of only a certain capitalized part of the surplus value.

Rosa Luxemburg's depiction of variable capital also goes in the same direction, that is, towards restricting the size of this part of the surplus value which cannot be realized in the conditions of pure capitalism. Despite the view ascribed to her,¹ in the *Accumulation of Capital* she never questions the fact that expanded reproduction assumes growth of the variable capital. 'Variable capital ... increases with progressive accumulation' (p. 340). This statement even becomes the starting point of the aforementioned polemic with Marx, in which she argues that apart from the external reserves of the labour force, that is, within the limits of the natural growth of the working class and the reserve army generated by capitalism itself, the growth of variable capital assumed by Marx is too slow (pp. 340–6). Rosa Luxemburg took the growth of variable capital into account also in her reproduction schemes (cf. p. 317 of the *Accumulation of Capital*), indicating that it takes place through transforming part of the surplus value into variable capital, i.e. into wages. Hence, this part of surplus value becomes realized in the course of exchange between classes of the bourgeois society, unless there is a deficit of the means of consumption. Slightly earlier, Rosa Luxemburg wrote: 'Even he [Tugan-Baranovsky] must admit in the

end, however, that his assumption of such an absolute decrease of the variable capital is in striking contrast to reality. Variable capital is in point of fact a growing quantity in all capitalist countries; only in relation to the even more rapid growth of constant capital can it be said to decrease' (p. 316).

Hence, if one was to consider all restrictions made by Rosa Luxemburg in various places and to a varying extent, it could be concluded that the author drew very near to the modern depiction of this issue as a problem of export surplus.²

The final chapters of Rosa Luxemburg's work (apart from the last one) are characterized by the dominance of historical material over theoretical. Nevertheless, they cannot be treated as a mere descriptive historical appendix. From Rosa Luxemburg's theoretical concept it follows that these chapters, as we shall see later, play an important theoretical role. Through historical material, she aims to prove the thesis already known to us, that the accumulation of capital is related to the non-capitalist environment, both in terms of the means of production and labour force and as the basis for the realization of surplus value, and that capital achieves the conditions of accumulation through the same processes which characterized primitive accumulation.

In its struggle against natural economy, capital attempts to achieve the following economic goals (cf. p. 349):

1. to gain possession over natural resources,
2. to separate producers from the means of production and force them to work under the command of capital,
3. to introduce commodity economy,
4. to separate agriculture from trade.

Analysing the various phases and forms of capital's struggle against the traditional formations – initially with the natural economy, then with the pre-capitalist commodity economy, Rosa Luxemburg emphasized primarily the role of violence and any non-economic factors in providing conditions for accumulation. 'Force is the only solution open to capital; the accumulation of capital, seen as an historical process, employs force as a permanent weapon, not only at its genesis, but further on down to the present day' (p. 351).

The natural economy is the fundamental barrier to the development of capitalism and its rapid development would be impossible if capitalism did not strive to eliminate all social forms based on natural economy. It employs not only cheapness of products but also violence – from

the state tax screw to colonial wars. More extensively Rosa Luxemburg states:

If capital were here to rely on the process of slow internal disintegration, it might take centuries. To wait patiently until the most important means of production could be alienated by trading in consequence of this process were tantamount to renouncing the productive forces of those territories altogether. Hence derives the vital necessity for capitalism in its relations with colonial countries to appropriate the most important means of production ... With that we have passed beyond the stage of primitive accumulation; this process is still going on. Each new colonial expansion is accompanied, as a matter of course, by a relentless battle of capital against the social and economic ties of the natives, who are also forcibly robbed of their means of production and labour power. Any hope to restrict the accumulation of capital exclusively to 'peaceful competition', i.e. to regular commodity exchange ... rests on the pious belief that capital can accumulate without mediation of the productive forces and without the demand of more primitive organisations, and that it can rely upon the slow internal process of a disintegrating natural economy. (pp. 350–1)

Rosa Luxemburg identifies the same impulses for development in the process of commodification of the peasant economy through the destruction of rural crafts. The process is only seemingly peaceful, and it seems to be triggered by purely economic factors, primarily the competition of mass industrial production with primitive handicrafts. However, even in this instance, a significant role is played by the state taxation screw, the grant and monopolization of state land, war, and other factors not only in the economy, but also from state policy and penal law. According to Rosa Luxemburg, this process was most thoroughly conducted in the United States. This is why she describes this process on the basis of the history of this country. A reading of the work indicates the extent to which Rosa Luxemburg's general theoretical concept determined her specific way of perceiving what was described by Lenin as the American path of capitalist development. Without entering into a more detailed comparative analysis of the Leninist description of the development of capitalism in the USA, and the description of the same process in the *Accumulation of Capital* (which could be a separate and extensive topic of analysis), at least a few points that are significant for Rosa Luxemburg's position need to be highlighted. A glance

at the history of American capitalism leads her to a conviction that, as in the process of transforming natural economy into the commodity economy, capitalism cannot wait for the automatic, slow processes of disintegration of the simple commodity economy. Already existing, primarily industrial, capitalism assumes the role of the midwife, utilizing a wide range of non-economic factors of breakdown. The roots of this tendency lie in the accumulation of capital. Commodification of the natural economy is required by the difficulties in realizing surplus value, which necessitates transformation of the natural economy into the commodity one. In turn, accumulation of the surplus value necessitates persistent displacement of simple commodity production by capitalist production. Rosa Luxemburg seems to explain the rapid development of American capitalism not through a free development of small-scale farming in the absence of feudal shackles in the form of large-scale landownership, but rather through numerous factors exogenous to farming, forming a picture which could not be described as automatic or autonomous. Of paramount importance in this mechanism of development was the role of tariffs, taxation, monopolies and parliamentary corruption, public property appropriation and, in particular, mass theft of state territories.

The analysis of the colonial conquest of India, China, Egypt and South Africa, the analysis of mutual relations between developing countries and the advanced capitalist countries leads Rosa Luxemburg to a conclusion that is a polemic with all political economy up to that time. Capitalist accumulation as a whole has, in her view, two aspects:

'One concerns the commodity market and the place where surplus value is produced – the factory, the mine, the agricultural estate. Regarded in this light, accumulation is a purely economic process, with its most important phase a transaction between the capitalist and wage labourer. In both its phases, however, it is confined to the exchange of equivalents and remains within the limits of commodity exchange. Here, in form at any rate, peace, property and equality prevail, and the keen dialectics of scientific analysis were required to reveal how the right of ownership changes in the course of accumulation into appropriation of other people's property, how commodity exchange turns into exploitation and equality becomes class-rule' (p. 432). This, however, does not exhaust the significant characteristics of capital accumulation as a whole.

'The other aspect of the accumulation of capital concerns the relations between capitalism and the non-capitalist modes of production ... Its predominant methods are colonial policy, an international loan system – a policy of spheres of interest – and war. Force, fraud,

oppression, looting are openly displayed without any attempt at concealment, and it requires an effort to discover within this tangle of political violence and contests of power the stern laws of the economic process' (p. 432).

Rosa Luxemburg criticized not only liberal bourgeois economics for limiting its interest only to the first aspect of the accumulation process, the purely economic aspect, treating the other side as a more or less incidental phenomena in the realm of foreign policy. This allows the history of capitalism to be presented as an account of peaceful competition, technological marvels, and trade liberalism. She regarded the liberal ideology of Manchesterism as the reverse side of the ideology of harmonious interests between capital and labour. She identified its genesis in the erroneous dogma of the classical school, which argued that commodity exchange is the only incentive and condition of capital accumulation, identical in its content with the commodity economy.

The above depiction of the capital accumulation process as an identity of two aspects leads Rosa Luxemburg to a dispute with Friedrich Engels. Global free trade was never, in her opinion, a manifestation of real needs of such broadly defined accumulation of capital, and in the course of the history of capitalism it could not have been anything but an episode, taking place in Europe in the 1860s and 1870s. For that reason it is fallacious to attribute – as Engels did – 'the general reversion to protective tariffs after the seventies simply to a defensive reaction against English Free Trade' (p. 430).³

7

Militarism and Economic Growth

The issue of the role of militarism for economic development in capitalism was brought up for the first time in the socialist literature by the 'Narodnik' V. Vorontsov.¹ In the social democratic literature, this issue was taken up repeatedly and in an apologetic way by Max Schippel,² with whom Rosa Luxemburg had already disputed on this topic at the end of the previous century. Nevertheless, these considerations were of a predominantly journalistic character.

In the Anglo-Saxon literature, the issue of militarization of national economy has become the subject of economic theory only since the so-called Keynesian revolution. However, in J.M. Keynes' well-known book from 1936, this issue is still raised only briefly and rather indirectly. This is why in the history of economic thought importance is attached to Keynes' preface to the German edition of the book, where he declared that German armaments policy at that time constituted the realization of conclusions following from his theory. Later, particularly after the Second World War, the call for militarization as a means of reviving economic activity and ensuring full employment entered many social programmes of the Right, and the positive attitude towards armaments as a factor of economic growth in capitalism became one of the theses (and features) of the so-called right-wing Keynesianism.

Nowadays, it is widely accepted (both in the bourgeois and the Marxist literature, hence independently of the attitude towards armaments as a social phenomenon), that the post-war economic prosperity in certain capitalist countries, the United States in particular, is explained precisely by the militarization of the capitalist economy, in the development of a powerful armaments production sector. Modern Western literature, originating as an inspiration with Keynes' doctrine and concerned with the problem of economic growth, introduced improved formal conceptual

tools into the analysis of this issue. Through mathematical tools, it became possible to express precisely certain quantitative relationships. Nevertheless, the main idea of this literature related to the issue of armaments can be depicted in a rather trivial form. Through creating demand for the output of the armaments industry or by taking up the role of the entrepreneur, the bourgeois state induces the development of other branches of production (for example, the increase in employment in the armaments sector expands demand for the associated raw materials on the one hand and consumption goods for the newly employed workers on the other). The effect of this mechanism is depicted in the form of the so-called (employment or investment) multiplier.

The Marxist literature in the last decades has negated the mere possibility of driving capitalist prosperity through militarization rather persistently and lengthily, and this situation continued until the mid-1950s. The only exception in this case are the early works of Michał Kalecki,³ who, drawing inspiration from the Marxist economic theory, formulated a modern business cycle theory as early as at the beginning of 1930s; moreover, he gave a much more precise shape to this theory than J.M Keynes. But this is exactly the reason why Kalecki's works were excluded from the Marxist literature and classified merely as anticipating Keynes's doctrine.

Rosa Luxemburg's work constitutes an earlier exception in the Marxian literature. The *Accumulation of Capital* ends with a chapter entitled: 'Militarism as a province of accumulation'.

Rosa Luxemburg took up the issue of militarism, its significance in the development of capitalism in a few preceding chapters. However, there, militarism was a tool of external conquest, a factor through which conditions and incentives for accumulation were created for capitalism. There, she emphasized that this tool was utilized by capital at all stages of its development. 'It plays a decisive part in the first stages of European capitalism, in the period of the so-called "primitive accumulation"' – Rosa Luxemburg summarizes her previous argument:

as a means of conquering the New World and the spice-producing countries of India. Later, it is employed to subject the modern colonies, to destroy the social organisations of primitive societies so that their means of production may be appropriated, forcibly to introduce commodity trade in countries where the social structure had been unfavourable to it, and to turn the natives into a proletariat by compelling them to work for wages in the colonies. It is responsible for the creation and expansion of spheres of interest for European

capital in non-European regions, for extorting railway concessions in backward countries, and for enforcing the claims of European capital as international lender. Finally, militarism is a weapon in the competitive struggle between capitalist countries for areas of non-capitalist civilisation. (p. 434)

In the *Accumulation*, she took up another aspect of the issue of militarism, the theoretical-economic aspect. Here, she became interested in a rather contemporary problem of militarism as a province of accumulation, sphere of realization and accumulation of value.

Beginning the theoretical analysis of the problem, Rosa Luxemburg modifies the assumptions she has made until then. She recalls that while considering who the recipient of the product embodying surplus value is, she rejected the state (and its organs) as an independent consumer realizing part of the economic surplus. This is because she made the Marxian assumption that state only utilizes revenue coming from profits or wages. However, such a solution is only correct in the conditions when first, it is assumed in accordance with the Marxian scheme that the state has 'no other sources of taxation than capitalist surplus value and wages' and second, when the state and its apparatus are treated exclusively as consumers. In this case, an increase in public expenditure translates into a reduction of the purchasing power of the working class, if the increase of expenditure occurred through taxation of this class. Of course, in this way, a certain shift in the distribution of national income in favour of capitalists takes place, an increase of surplus value, and hence of the possibility for accumulation. However, it does not yet provide the basis for accumulation. Shifting onto the working class and simple commodity producers of a certain part of the costs of maintaining classes tied to the capitalist class releases part of the surplus value for accumulation purposes. 'But as yet *no opportunities for such capitalisation* have come into being, no new market' (p. 436, emphasis in the original). The situation is different if public expenditure is used for the 'production of armaments', i.e. for a specific type of products. Emphasizing that the capitalist country shifts the costs of armaments through indirect taxation and high protective tariffs primarily onto the working class and the peasantry, she initially analyses the economic consequences of transferring part of the purchasing power of the working class to the state, and then the consequences of the state's drainage of the purchasing power of the peasantry.

If the prices of necessities rise (as a result of indirect taxation) at a given nominal wage, then the outcome is that the working class, while producing the same amount of output, receives a diminished part,

which violates the conditions of the aggregate capital reproduction. For aggregate capital, transferring in this way part of the purchasing power from the working class to the state means that with a certain amount of variable capital and a given amount of surplus value received by capitalists, a smaller amount of the means of subsistence has to be produced to maintain the working class.

Next, Rosa Luxemburg considers the changes in the material relations of reproduction. 'When fewer means of subsistence are needed for the renewal of labour power, a corresponding amount of constant capital and living labour becomes available which can now be used for producing other commodities in response to a new effective demand arising within society' (p. 438). This demand will be currently represented by the state, which submits its demand not for the means of subsistence, but for the weapons of war.⁴

Depicting the process of transferring part of the demand from the working class to the state on the basis of the Marxian reproduction scheme, modified by singling out a new (third) department of social production – armaments production (p. 441), Rosa Luxemburg argues that production of weapons of war stimulates production on the whole.

The means of subsistence taken away from the workers, say 100 units in magnitude, constitute a 'new market' in the hands of the state submitting demand for the weapons of war. These 100 units already fulfilled its task as variable capital producing surplus value. 'Then the circulation of the variable capital was stopped short, this money was split off, and it now appears as a new purchasing power in the possession of the state. It has been created by sleight of hand, as it were, but still it has the same effects as a newly opened market' (p. 441).

State expenditure 'has the lure of a new and attractive sphere for realising the surplus value' (p. 444), 'afford[s] capital a new opportunity for accumulation', precisely because the sum of taxes extracted from the workers, when at the disposal of the state, 'begins an entirely new career. As a new purchasing power, belonging with neither labour nor capital, it becomes interested in new products, in a special branch of production which does not cater for either the capitalists or the working class, and thus it offers capital new opportunities for creating and realising surplus value' (p. 444).

In this way, Rosa Luxemburg explained the mechanism by which the new sphere of accumulation is formed through reducing the incomes of the working class by the state and shifting them to the armaments industry. Moving on to the second source of the state's purchasing power, to the petty producers, primarily peasants, Rosa Luxemburg indicates that,

through the taxation system, the state influences the economy in the following way. The sums of money taken away from peasants have not previously functioned as, for instance, variable capital, but they come from the exchange of products of petty commodity producers. Thus, the revenues obtained did not play the dual role that they had in the case of the redistribution of workers' incomes. Nevertheless, significant changes to the aggregate capital follow on from this. The taxation system forces peasants to exchange products on an increasing scale. Hence the purchasing power of the non-capitalist consumers becomes significantly larger than it would have been if in their exchange peasants were only concerned to satisfy their own consumption needs. The taxation system drags the peasant into coercive commodity exchange relations, and hence into the orbit of capitalist relations. Furthermore, it transforms the small savings of the peasants and the urban petty bourgeoisie that, gathered in the form of capital in banks and savings banks would seek new investment outlets, into state's purchasing power creating the opportunity for capital investments. Further, instead of the demand of the petty bourgeoisie being spread in time and space, the demand satisfied partly by simple commodity production, and hence outside of the capitalist production, there are sums of taxation in the hands of the state in a concentrated and cohesive form.

Further changes concern the decrease in the capitalist market fluctuations, its immunization to temporary vagaries of trends, etc. The following is her longer statement on the topic: 'In the form of government contracts for army supplies the scattered purchasing power of the consumers is concentrated in large quantities and, free of the vagaries and subjective fluctuations of personal consumption, it achieves an almost automatic regularity and rhythmic growth. Capital itself ultimately controls this automatic and rhythmic movement of militarist production [...]. That is why this particular province of capitalist accumulation at first seems capable of infinite expansion ... production for militarism represents a province whose regular and progressive expansion seems primarily determined by capital itself' (p. 446).

Meanwhile, ignoring the conclusions derived by Rosa Luxemburg from her own argument, concerning the exacerbation of the contradictions in this context, paving the way for the breakdown of capitalism, let us consider the theoretical value of her analysis of militarism, and the strengths and weaknesses of her reasoning:

1. Rosa Luxemburg quite early recognized the significant role of the bourgeois state in creating new demand, and hence in influencing

economic growth. Nevertheless, from the purely economic point of view, this role is still rather limited. It is exhausted in the mobilization of monetary resources through the system of taxation (and inflation, acting mainly through indirect taxes), as well as in influencing production through orders for military supplies. The state does not yet act as the organizer of its own sector of production, let alone recognize its potential to create demand 'from the budget deficit', etc. At that time, history had not yet provided appropriate material suitable for generalization. Nonetheless, it needs to be emphasized that Rosa Luxemburg, through her depiction of the role of the state itself – however limited from the modern point of view – has broken with the traditional economic doctrine. This break opened the grounds for analysing the interventionism of the state, rejecting the traditional point of view, amounting to the thesis that the state can only redistribute profits and incomes without making any changes to the conditions of aggregate capital reproduction. Formerly, it was argued – as Rosa Luxemburg recalls – that 'military supplies as an economic investment for capital merely put profit taken from one capitalist into the pocket of another' (p. 440). It was with such an argument, accepted by the Russian Marxists, that Professor Manuylov responded to the aforementioned article of Vorontsov.

2. It is worth mentioning that Rosa Luxemburg analysed the issue of militarization with the unchanged assumption of full utilization of productive capacity and of full employment. Moreover, the analysis was made more difficult by her nearly exclusive use of that magnitude of capital (both constant and variable), that arises from reducing the incomes of the working class and hence decreasing production of the means of consumption (and a corresponding portion of production in department I). This followed from her (nonetheless acceptable and justifiable) assumption that the main burden of armaments is borne by the masses of the people, primarily the working class, an assumption which freed her, in a way not entirely consistent with her general analysis, from the problem of free capital looking for investment outlets. This burden was somewhat tacitly identified as the source of accumulation in the armaments industry as whole. Only incidentally and in reference to the peasantry and petty bourgeoisie, she wrote that through the taxation system and military orders the state transformed their savings, located in savings banks and banks and hence seeking outlets in the form of capital, into demand and investment opportunities. The logical consequence of the aforementioned limitations of Rosa Luxemburg's argument is her omission of the issue

of the secondary impact of the armaments sector on other branches of production, overlooking the phenomenon nowadays depicted as the multiplier. Without this, she in turn had to present the influence of armaments on wages in an excessively rigid framework. Nearly all the limitations mentioned here stemmed essentially from sticking too closely to the assumptions made, from the fact that she was interested in the factors of economic growth exclusively from the point of view of a long-term analysis. She repeatedly emphasized that she excluded the entire, rich issue of the business cycles from the scope of her interest in this work. Meanwhile, many economic aspects of militarization can be explained precisely in business cycle theory.

3. Rosa Luxemburg too strongly contrasted expenditure on public administration with expenditure on armaments, perhaps not appreciating the significance of the former in the era of monopoly capitalism. Nevertheless, due to this one-sidedness she captured the unique character of production in the armaments industry, nearly entirely independent of the consumption demand, but nevertheless influencing the capitalist market through its 'almost automatic regularity'.
4. From the point of view of Rosa Luxemburg's general theory of accumulation, her analysis of the military production as a province of accumulation is of paramount importance. It gives significant substance to her thesis that capitalism cannot exist without non-capitalist surroundings. In her analysis of militarism, Rosa Luxemburg argues that, to a certain extent, the capitalist state has the possibility to create a capitalist sector of production, which plays the role of this non-capitalist environment in the process of accumulation.

8

Imperialism and the Process of Capitalist Decline

Including in the analysis of accumulation process the issue of the non-capitalist environment and its role in the development of capitalism, Rosa Luxemburg was trying to create a theory of capitalist development that would be much more general than the Marxian theory. While in Marx, the concept of 'capital' was expressed solely by social relations between the bourgeoisie and the proletariat, for Luxemburg the concept expressed the dominance over both the proletariat and the pre-capitalist environment, sucked into the mechanism of global capitalist production, thus, in modern terms, dominance over underdeveloped countries and areas.

She deemed it necessary to abandon the assumption of absolute dominance of capital in the whole world not only due to the fact that this assumption 'actually ruled out the process of imperialism in advance'. She argued – in accordance with the essence of Marx's theory – that the experience of imperialism is so significant that it requires the Marxian theory of capitalist development (with a too narrow historical basis) to be reformulated. In this way, the newest phase of capitalism – imperialism – could be explained as a special case of a general theory. She argued that there was no 'Chinese wall' between classical capitalism and the imperialist phase. Nor was there such a barrier between the processes in the emergence of capitalism, through appropriation and forced expropriation of the traditional forms of production, and the process of capitalist breakdown emerging from economic and political contradictions between these two worlds. In her view, imperialism is the period of military calamities and revolutions, whose roots lie primarily in the exhaustion of non-capitalist environment, securing external markets, areas for profitable capital investments and basic raw materials for capitalist accumulation. Without this environment, accumulation becomes impossible.

Rosa Luxemburg's attention is focused on the above reformulation of the general theory of capitalist development in the light of the experience of recent decades. That is why she paid little attention to the analysis of specific features of the latest phase of capitalism, that is, imperialism.

Nevertheless, her work contains certain significant elements of the theory of imperialism. The problem of imperialism, in Rosa Luxemburg's analysis, is strictly related to her concept of capitalist breakdown, which – usually described by her critics as the theory of an automatic (or sometimes, in the same sense – mechanical) collapse of capitalism – triggered the most comments and accusations, often overshadowing other issues analysed in her book.¹ The concept of the collapse was one of the most serious accusations directed against so-called 'luxemburgism'. Capitalist collapse gained remarkable publicity not only due to theoretical considerations, but also due to its political and ideological implications. However, in a dispute of this type it is easy to fall into obstinacy and polemical fanaticism, becoming detached from the actual theses giving rise to the argument. In this case, these features manifested themselves particularly vividly. Undoing the reader's conviction in the thesis of the automatic crash of capitalism requires the most exhaustive consideration of the evidence possible in the form of Rosa Luxemburg's authentic opinions confronted with the accusations of her critics.

The first critic of Rosa Luxemburg to formulate the accusation of a mechanical crash was Otto Bauer. He ended the review of *Accumulation* with the following words: 'Capitalism will not collapse from the mechanical impossibility of realizing surplus value. It will be defeated by the rebellion to which it drives the masses. Not only then, when the last peasant and the last petty-bourgeois change into wage-workers ... will capitalism disintegrate: it will be cut down much earlier by the growing rebellion of the ever-rising working class, educated, united and organized by the mechanism of the capitalist mode of production itself'.²

Bauer stated the supposedly most important theses of this theory of breakdown. Thus, it is interesting how its author reacted to this accusation. 'In order to direct this advice to me specifically, Bauer, a master of abstraction, had to abstract not only from the entire meaning and direction of my conception of accumulation, but also from the clear text of my statements' (*Anti-Critique*, p. 149).

Hence, the author argued that even this interpretation, relatively mild in comparison with the later ones, contradicts both the general direction of her investigation and the direct tone of her argument. She was known for being able to defend her opinion in a particularly persistent manner; however, when she changed her views she would

express it directly. This was the subject of her preface to *Accumulation*. Of course, her statement does not necessarily constitute the proof that Rosa Luxemburg did not, contrary to her intentions, develop a theory of mechanical breakdown; nevertheless, it at least casts serious doubt on whether such a concept, had it been developed, would integrate her social outlook into one coherent and consistent system. This erroneous theory could not piece together her outlook on various issues.

Consequently, already in this light one can seriously doubt the correctness of the thesis formulated by the most recent critic of Rosa Luxemburg's theory of an automatic breakdown of capitalism, Roman Werfel. He wrote: 'The theory of revolutionary activity, redundancy of the leading role of the party in the revolution process, stems from the theory of an automatic breakdown of capitalism. In turn, the latter assumes the decline of non-capitalist surroundings, of the individual, small-scale peasantry in the first place, it assumes the division of a significant majority of the society into a handful of capitalists and proletarian masses. In such a society, the role of the national question is entirely different – in fact, negligible – and the issue of peasants vanishes. In such a situation Rosa Luxemburg's views on such issues make some sense. In such a society, the ideological outreach of bourgeois influences, at the time of economic breakdown of capitalism, has to be significantly smaller than in any society of our times and this influence has to decrease particularly quickly as the powerlessness of the capitalist class in tackling the automatic breakdown of its system is exposed. All these assumptions are not realistic and do not conform to reality; however, they result from one another and, precisely in their unreality, come together to form a system.'³ Werfel maintains that 'we are dealing with a concise ideological concept, which needs to be treated as a whole and so it should be entirely accepted or rejected'.⁴ However, it is bizarre that this author deems it appropriate to combine numerous issues into one system, and then to claim that this theory is difficult, accessible exclusively to a narrow group of educated Marxists, which is then supposed to exempt him from a critical analysis. Hence, arguments relevant to the dispute must be sought elsewhere.

In the Polish literature, the most extensive criticism of Rosa Luxemburg was presented by Jerzy Ryng in the paper 'Luksemburgizm w kwestii polskiej' (1933). We adopt this article as the basis for the confrontation with Rosa Luxemburg's statements. Ryng writes: 'According to comrade Rosa Luxemburg, capitalism breaks down when, having lost the external market, the capitalist loses the possibility of realising surplus value, when capitalism conquers the world it has to disappear

from the world. If capitalism is to perish as a result of consuming its "source of sustenance", what is the contribution of the proletariat, of its class struggle? "According to Marx [Ryng quotes a fragment from *Anti-Critique*], the rebellion of the workers, the class struggle, is only the ideological reflection of the objective historical necessity of socialism, resulting from the objective impossibility of capitalism at a certain economic stage". Hence, the class struggle of the proletariat against the bourgeoisie, taking place since the inception of capitalism, escalates in the course of the development of capitalism and eventually blows it up; this struggle is merely an ideological reflection of an objective necessity that, having consumed the non-capitalist environment, capitalism will choke on its own self ... The dialectics set straight by Marx is again all over the place ... due to the mechanistic depiction of the process of social development, at which the objective need of the capitalist breakdown lies outside the realm of the class struggle, where it only finds its ideological reflection.¹⁵

This is the first part of Ryng's reasoning, concerning the general thesis of Rosa Luxemburg on the significance of non-capitalist surroundings for the existence of capitalism. Its second part concerns imperialism: 'Capitalists deprive themselves of the *remnants* of the non-capitalist (and only non-capitalist!) surroundings – that is the core and essence of imperialism according to comrade Rosa Luxemburg.'¹⁶

Finally, the third part of Ryng's interpretation is concerned with the struggles of the colonial populations and peasants. In Ryng's interpretation of Rosa Luxemburg's theory, their revolutionary significance arises not due to their struggle, defence and rebellion against the capitalist 'expropriation', but conversely, because they let themselves be consumed. The faster it occurs, the quicker will capitalism fall. 'In the emancipation struggle of the peasants, the liberation struggle of the oppressed nations, we see the same automatism which we recognised in the proletarian class struggle. The only difference is that while the proletarian class struggle is for comrade Rosa Luxemburg a factor accelerating the breakdown of capitalism, the resistance of peasants and the oppressed nations against the greediness of imperialism merely delays the moment when capitalism breaks down due to the impossibility of realising surplus value.'¹⁷

This is how Rosa Luxemburg's theory of an automatic breakdown of capitalism was supposed to look according to the interpretation of Jerzy Ryng. Let us examine its foundations without following – so as to avoid too much repetition – the order of the individual components of Ryng's reasoning.

Thus, firstly, the issue of the significance of the colonial and peasant struggle. Neither Ryng nor any other author known to me wanted to or could refer to even one sentence which would indicate that Rosa Luxemburg recognized only one role of the non-capitalist environment, namely that the struggle of peasants and the colonial nations would only delay the breakdown of capitalism. This accusation was unfortunately formulated by a peculiar use of the deductive method: since capitalism cannot exist without the non-capitalist surroundings – the critics argued on behalf of Rosa Luxemburg – then the faster they disappear, the sooner will capitalism break down. Ergo the resistance of peasants merely delays the moment of the crash. Such a manipulation of Rosa Luxemburg's theory would be acceptable if the author argued that capitalism could ever attain the limit of its economic development and focused her attention on this final point, or if she herself did not assess the anti-colonial and anti-capitalist struggle otherwise.

Meanwhile, the author of *Accumulation* repeatedly emphasized that her most general thesis of capitalist breakdown as a result of the exhaustion of non-capitalist surroundings constitutes merely an abstract starting point of the analysis of the process of the capitalist breakdown, that this thesis merely indicates the direction and the developmental tendency of capitalism, and nothing else. She argued that various contradictions would never allow capitalism to reach the boundaries of its economic development and the whole emphasis of her argumentation lay precisely in highlighting these contradictions.⁸

Immediately after the sentence quoted by Ryng, that the rebellion of workers is merely an ideological reflection of the objective historical need of socialism, Rosa Luxemburg wrote: 'Of course, that does not mean (it still seems necessary to point out those basics of Marxism to the "experts") that the historical process has to be, *or even could be*, exhausted to the very limit of this economic impossibility. Long before this, the objective tendency of capitalist development in this direction is sufficient to produce such a *social and political sharpening of contradictions* in society that they must terminate' (*Anti-Critique*, p. 76, emphasis by T.K.).

Writing that the expansion of capital into the world market increasingly transforms into 'a chain of economic and political catastrophes: world crises, wars, revolution' (p. 60), Rosa Luxemburg emphasized that capitalism prepares its own destruction in two ways: 'As it approaches the point where humanity only consists of capitalists and proletarians, further accumulation will become impossible. At the same time, the absolute and undivided rule of capital aggravates class struggle throughout the world and the international economic and political anarchy

to such an extent that, long before the last consequences of economic development, it must lead to the rebellion of the international proletariat against the existence of the rule of capital' (*Anti-Critique*, p. 60).

Elsewhere, Rosa Luxemburg did not hesitate to describe this first aspect of the process of capitalist breakdown as a *theoretical fiction*, the fact which all critics of the automatic breakdown of capitalism known to me consistently failed to mention. To the question of whether the widespread domination of capitalism could ever really happen, she answered: 'That is, of course, theoretical fiction, precisely because *capital accumulation is not just an economic but also a political process*' (*Anti-Critique*, p. 146, emphasis by T.K.). The theory completely serves its purpose when it depicts 'the *tendency* of development, the logical conclusion to which it is objectively heading. There is as little chance of this conclusion being reached as there was for any other previous period of social development to unfold itself completely. The need for it to be reached becomes less as social consciousness, embodied this time in the socialist proletariat, becomes more involved as an active factor in the blind game of forces' (*Anti-Critique*, pp. 146–7, emphasis in the original).

All these statements are taken from *Anti-Critique*. Nevertheless, the same point of view had already been developed by Rosa Luxemburg in her main work. There, she emphasized her concern about indicating the tendencies of capitalist development making imperialism a period of disasters, which bring capitalism to its end (p. 427).

At this point, it again suffices to supplement the final fragment of *Accumulation* quoted by Ryng with the preceding sentences so that the author's stand turns out to be far from the automatism ascribed to her. 'The more ruthlessly capital sets about the destruction of noncapitalist strata at home and in the outside world, the more it lowers the standard of living for the workers as a whole, the greater also is the change in the day-to-day history of capital. It becomes a string of political and social disasters and convulsions, and under these conditions, punctuated by periodical economic catastrophes or crises, accumulation can go on no longer. But even before this natural economic impasse of capital's own creating is properly reached it becomes a necessity for the international working class to revolt against the rule of capital' (p. 447).

In the emancipation of the former 'hinterlands' of capital, Rosa Luxemburg identifies the same meaning of wars and revolutions, as a significant ingredient of the capitalist breakdown process.

The chapter on international loans (understood broadly – both as loans in their literal meaning and as export of productive capital) begins with the following, interesting theses: 'The imperialist phase of capitalist

accumulation which implies universal competition comprises the industrialisation and capitalist emancipation of the hinterland where capital formerly realised its surplus value. Characteristic of this phase are: lending abroad, railroad constructions, revolutions, and wars ... Just as the substitution of commodity economy for a natural economy and that of capitalist production for a simple commodity production was achieved by wars, social crises and the destruction of entire social systems, so at present the achievement of capitalist autonomy in the *hinterland* and backward colonies is attained amidst wars and revolutions' (p. 399, emphasis in the original).

Further, the author indicates that revolution through which the emancipation of colonies takes place aims to destroy the obsolete forms of the state and create a modern state apparatus, compatible with the objectives of capitalist production. That was the essence of the Russian, Turkish and Chinese revolutions during that time. In the Russian and Chinese revolutions, she recognises new features embodying not only the 'pre-capitalist claims', but also 'new conflicts which run counter to the domination of capital'.

The young capitalist state usually resorts to war as a means through which it attempts to sever the tutelage of the imperialist states. The war of national independence constitutes the baptism of fire and a test of the independence of the young state. Military and financial reform usually precedes economic independence. True, Rosa Luxemburg did add that owing to their dual character, the new revolutions 'impede and delay the ultimate victory of the revolutionary forces' (p. 400). However, it is clear – this follows from her entire theory of accumulation as the historical process – that she meant the delay of these revolutions in the bourgeois democratic sense. The delay of their victory from the point of view of bourgeois democratic goals was a consequence of these objectives coinciding with anti-capitalist goals, that is, acceleration of claims of the socialist character.

In this matter, already during the first Russian revolution, Rosa Luxemburg popularized Marx's well-known thesis that in the conditions of a delayed bourgeois-democratic revolution (Germany, 1848) there is a possibility of its direct transformation into the socialist revolution. There is no evidence that she abandoned this opinion later on. On the contrary – she developed this view towards a broader consideration of the colonial issue as the factor accelerating the breakdown of the global capitalist system. From the point of view of the modern, realistic approach to the problem of disintegration of capitalism as a world system, the book marks a significant break within the Social Democratic

literature. For Marxists before the First World War, the scope of the revolutionary workers' movement's activities was essentially Europe. That was the world which was significant at that time and defined the strategy and tactics of the Internationale. As one of the first socialist writers, Rosa Luxemburg broke with this eurocentrism and from the point of view of the revolutionary tasks of the international proletariat of that time, she analysed the world as a whole.⁹ She was the first to analyse the world economy and politics in a theoretical way, including its various contradictions. Like no one before the First World War, she placed one of the main problems of the modern world at the centre of attention of the socialist theorists. In the issue of underdeveloped countries, she sought the key to understanding the breakdown of capitalism and in this sense, she was a direct predecessor of Lenin. Of course, Lenin presented this issue better, more specifically, more deeply. However, he only did so after the First World War and after the victory of the October Revolution, hence having a much richer historical experience at his disposal. Consequently, not only could he elucidate this issue in a better way theoretically, but from this he was also able to draw fundamental conclusions for the strategy and course of action to be undertaken.

Rosa Luxemburg certainly overestimated the degree of industrialization which is sufficient for a successful liberationist struggle of the former capital colonies. However – perhaps completely unknowingly or intuitively – she focused her attention not on the processes of the organic development of various forms of capitalism in the rural and urban areas, but on the construction of railways and other objects, constituting what is nowadays described as infrastructure. She did not recognize the possibility of the victory of socialism in a single or in a few countries, let alone in the more underdeveloped ones. Nevertheless, analysing the breakdown of capitalism not as a one-off event, but rather as a process, as an entire chain of disasters, wars and revolutions, with a simultaneous emphasis on the massive unevenness of capitalist development in different industries and countries, and highlighting the insurmountable contradictions between the major imperialist superpowers, between them and the dependent countries, she did not create any theoretical obstacles to understanding this entirely new regularity. Rather, she paved the way to its comprehension.

The situation is similar in the case of allies. Rosa Luxemburg did not explicitly state the thesis of the proletariat's hegemony in relation to peasants and colonial nations. She had never taken up the agrarian question in more detail; in her legacy, she did not leave even one contribution to this topic. Nonetheless, her analysis of the methods and forms

of transformation of the natural economy into the commodity one and of the commodity economy into the capitalist one, her emphasis on the role of economic and political factors external to the peasant economy (including various forms of coercion) in capitalist development, her analysis of militarism constituting a great burden on the working masses, the analysis of imperialist contradictions and wars leading to revolutions, linking revolution with the imperialist war – all these indicated that the proletariat was not isolated in the anti-imperialist struggle. Finally, in the name of struggling to preserve culture, to liberate humanity from catastrophes, the proletariat cannot wait until it constitutes a majority of the population on a global scale, that is, until capitalism proletarianizes the majority of peasants and colonial nations.¹⁰

‘What distinguishes imperialism as the last struggle for capitalist world domination is not simply the remarkable energy and universality of expansion but – and this is the specific sign that the circle of development is beginning to close – the return of the decisive struggle for expansion from those areas which are being fought over back to its home countries. In this way, imperialism brings catastrophe as a mode of existence back from the periphery of capitalist development to its point of departure. The expansion of capital, which for four centuries had given the existence and civilization of all non-capitalist peoples in Asia, Africa, America and Australia over to ceaseless convulsions and general and complete decline, is now plunging the civilized peoples of Europe itself into a series of catastrophes whose final result can only be the decline of civilization or the transition to the socialist mode of production. Seen in this light, the position of the proletariat with regard to imperialism leads to a general confrontation with the rule of capital. The specific rules of its conduct are given by that historical alternative’ (*Anti-Critique*, pp. 147–8).

The fragments quoted above demonstrate that, in reducing Rosa Luxemburg’s description of imperialism exclusively to a struggle for the remains of the non-capitalist environment, her critics including Ryng simplified their critical task excessively. This was argued by Ryng merely on the basis of the first sentence from the chapter on protective tariffs and accumulation: ‘Imperialism is the political expression of the accumulation of capital in its competitive struggle for what remains still open of the noncapitalist environment’ (p. 426).

Such a narrow interpretation of Rosa Luxemburg’s concept of imperialism is already contradicted by the fragment quoted above, which states that the decisive struggle over the possibility of expansion is in the imperialist countries. A similar thought was expressed by the author

when she noticed that 'the old capitalist countries provide ever larger markets for ... one another' (p. 347).

A much broader depiction of imperialism, both as an era of the division of colonies between major capitalist superpowers and as an era of liberating the colonial countries, can be found in the aforementioned statement of Rosa Luxemburg on the emancipation of 'hinterlands' through revolutions and wars.

All of this suggests that the sentence quoted by Ryng was not supposed to serve as the definition of imperialism in Rosa Luxemburg's intention, but merely indicate one of its features. To better understand the thinking of the author of *Accumulation*, it might be useful to quote some of the partial constructions contained in this work. Although they do not constitute a classic and systematic definition, they nevertheless provide a much more complete insight into the main features of the era of imperialism highlighted by her. 'The typical external phenomena of imperialism: competition among capitalist countries to win colonies and spheres of interest, opportunities for investment, the international loan system, militarism, tariff barriers, the dominant role of finance capital and trusts in world politics, are all well known' (*Anti-Critique*, p. 60); 'competition for the most distant markets and capital exports' are the most dominant features of 'modern imperialism' (*Anti-Critique*, p. 77).

Among all these descriptions of imperialism, the issue of cartels and trusts does not occur. Neither does the related issue of transition from free competition to monopolistic pricing. Nevertheless, there is direct evidence that Rosa Luxemburg consciously excluded this group of problems from her argument, devoting her work to the international aspects of imperialism. In one of the footnotes, she deemed it necessary to explain the following: 'It would go beyond the scope of the present treatise to deal with cartels and trusts as specific phenomena of the imperialist phase. They are due to the internal competitive struggle between individual capitalist groups for a monopoly of the existing spheres for accumulation and for the distribution of profits' (p. 437). Thus, without a doubt, she treated these new forms of capitalist enterprises as important phenomena of the new phase of capitalism.

This explanation allows the statements contained in the pamphlet *The Crisis of Social Democracy*, written in the first year of the war, to be treated as a deliberate expression of her views. Here is one of them. Writing that maturing of imperialism can be best observed as in a test-tube – through the example of Germany, where this process was the shortest, she highlights two specific forms of capital accumulation – a

rapid process of cartelization, occurring most strongly in Europe, and an equally strong process of concentration in banking. 'The monopolies have organised the steel and iron industry, i.e., the branch of capitalist endeavour most interested in government orders, in militaristic equipment and in imperialistic undertakings (railroad building, the exploitation of mines, etc.) into the most influential factor in the nation. The latter has cemented the money interests into a firmly organised whole, with the greatest, most virile energy.'¹¹ This is precisely why 'this live, unhampered imperialism, coming upon the world stage at a time when the world was practically divided up, with gigantic appetites, soon became an irresponsible factor of general unrest'.¹²

Furthermore, Rosa Luxemburg's abstract theory of accumulation is not contradicted by her direct answer given in the quoted pamphlet to the question of what is the role of the proletarian class struggle in the process of capitalist breakdown. 'Scientific socialism has taught us to comprehend the objective laws of historical development. Men do not make history according to their own free will. But they make history nonetheless. Proletarian action is dependent upon the degree of maturity in social development. However, social development is not independent of the proletariat but is equally its driving force and cause, its effect and consequence. [Proletarian] action participates in history. And while we can as little skip a stage of historical development as escape our shadow, we can certainly accelerate or retard history ... The victory of socialism will not descend from heaven. It can only be won by a long chain of violent tests of strength between the old and the new powers. The international proletariat under the leadership of the Social Democrats will thereby learn to try to take its history into its own hands; instead of remaining a will-less football, it will take the tiller of social life and become the pilot to the goal of its own history.'¹³ In a dispute with the thesis of Jerzy Ryng, these words are even more significant because they are found in the pamphlet written in the same year and in the same place (in the Berlin women's prison)¹⁴ as *Anti-Critique*. The views of a rather abstract character expressed in this work, namely that the proletarian class struggle is merely an ideological reflection of the objective necessity of socialism, were developed and interpreted by the author herself in the pamphlet devoted to specific-historical analysis. Both in the first and in the second work, the class struggle is, in her view, a driver of history, the driver whose general direction is determined by the economic and social development of the societies. The author of *Accumulation* meant to describe the historical course of this 'driver', and nothing more.

Such is Rosa Luxemburg's theory of imperialism. In order to better understand the place of this theory in the development of the Marxist economic thought, we will present the second strand of development of the theory of imperialism. Rudolph Hilferding's *Finance Capital* and Vladimir Lenin's *Imperialism, the Highest Stage of Capitalism* are widely regarded as the most important works of this strand. These works constitute a natural point of reference for the evaluation of Rosa Luxemburg's theory of imperialism.

9

Rudolf Hilferding's Theory of Finance Capital

Rudolf Hilferding entered the history of economic thought in the first place as the author of *Finance Capital*.¹ In the general issues of economic theory, he regarded himself as Marx's faithful student and popularizer. Marx's *Capital* contained, in his view, a classical, comprehensive analysis of traditional capitalism, which should be complemented with the analysis of new phenomena stemming from the expansion of capitalist organizations.

Irrespective of Hilferding's individual contribution to the analysis of imperialism, his work is simultaneously a synthesis of the massive economic literature on this topic, that emerged at the start of the twentieth century. The rapid development of joint-stock companies and capitalist monopoly organizations found its reflection in the Western and American social commentary as early as in the 1880s. The issue appeared not only in the socialist press, but also in the documents and materials from the conferences of the Socialist International. The analysis of monopolies becomes one of the assets in the theoretical argumentation of Eduard Bernstein and his followers. This induces numerous polemical reactions from orthodox Marxists.

At the turn of the century, there was already a rich literature analysing the process of monopolization and 'trustification' of industry, as well as new tendencies in the policy of the bourgeois states. The book of the English economist John A. Hobson *Imperialism* (1902) came to the forefront. Hobson attempted to capture the social essence of the new era of capitalism, which he aptly called imperialism. In this sense, this book was exceptional and that is why it was highly regarded by Lenin. In general, the literature on this topic at that time was of a descriptive-journalistic or narrowly economic character. It was usually concerned with the technical-economic analysis of corporations, the method of their establishment,

the advantages of large-scale joint ventures relative to the small-scale ones, the system of monopolistic connections and contracts.

In social terms, two distinct strands could be detected in the literature of that time: the apologetic one, emphasizing exclusively the progress in the development of the productive forces, resulting from monopolies both from the point of view of capitalists and society as a whole; and the romantic-critical strand, defending all society as consumers against monopolistic collusions. This latter strand represents the interests of the lower middle classes and small-scale capitalists. It is widely argued that the manifestation of this criticism is found in the anti-trust laws issued in many countries, in the United States in particular. Here, a phenomenon similar to one in the first stage of capitalism occurred; two strands of bourgeois economics existing at that time (open apology of capitalism, and the school criticizing capitalism from the perspective of the lower middle class) reflected the features of capitalism, but neither was capable of providing a comprehensive and deep analysis of capitalism.

It was only the socialist theorists who specified the positive and negative aspects of the new form of capitalism in due proportions. They argued that the new phase marks a significant progress in the development of the productive forces. However, they simultaneously highlighted the internal contradictions and the historically temporary character of monopoly capitalism. The socialist theorists only became capable of such analysis after they had overcome the one-sided pamphleteering and accusation that was typical of the early critical as well as socialist literature.

Hilferding's book emerged in the atmosphere of discussions within the socialist movement, and it expressed the social tendency characteristic of the revolutionary flank of Marxists at that time. Hilferding begins his analysis with a detailed investigation of the monetary and credit system of his times. He then moves on to the analysis of the nature of a joint-stock company and the founder's profits, as well as of the new role of banking. He then discusses the role of monopolies and their impact on crises. The book ends with conclusions on the imminent clash between the fundamental social classes and on the necessity of replacing the dictatorship of big capital – with the dictatorship of the proletariat.

As early as in the preface to *Finance Capital*, Hilferding indicated two features characteristic of contemporary capitalism. First – it is the abolition of free competition in the course of establishing cartels and trusts; second – it is the growing links between banking capital and industrial capital, from which financial capital emerges. Recognizing the leading

role of institutions monopolizing production (cartels and trusts), he focuses his analytical attention primarily on the phenomena related to finance capital, that is, on these most fetishistic phenomena which, in his view, obscure the essence of the new phase of capitalism. Finance capital is the highest and the most abstract form of capital's manifestation. 'The mystery which always surrounds the position of capital becomes more inscrutable than ever in this case. The distinctive movement of finance capital, which seems to be independent, though in reality it is a reflection; the diverse forms which this movement assumes; the dissociation and relative independence of this movement from that of industrial and commercial capital – these are all processes which it becomes more urgent to analyse the more rapidly finance capital grows, and the greater the influence which it exercises on the current phase of capitalism. No understanding of present-day economic tendencies, and hence no kind of scientific economics or politics, is possible without a knowledge of the laws and functioning of finance capital.'²

Hilferding reaches the general concept of finance capital through the analysis of the transformed role of banks on the one hand and, on the other hand, the analysis of the economics of joint-stock companies and shareholder capital. Moreover, emphasizing the eventual separation of enterprise management from the ownership of capital, Marx wrote in *Capital*, that in a joint-stock company, 'owning capital ... is entirely divorced from the function in the actual process of reproduction'. Hence, the joint-stock company is a transitory phase towards the social ownership of allied producers.

Hilferding elaborated on this remark of Marx's. He was the first in the Marxist literature to introduce the concepts of founder's profit and dividend, widely known today from a basic economics course, as separate economic entities. Furthermore, he comprehensively analysed the differences between a joint-stock company and an individual enterprise.

In his view, a stock company is not only independent of the personal qualifications and circumstances of a capitalist, but more importantly it is independent of the magnitude of individual capital, which needs to be initially concentrated in one hand before it can function as industrial capital. The stock company expands the circle of individuals and allows numerous small amounts of capital to join into one large industrial capital. Consequently, its establishment is easier and, having been founded, it is subsequently more efficient and dynamic. The ease in obtaining capital through direct access to the capital market is accompanied by a greater efficiency and ability to accumulate. In contrast with the individual entrepreneur, whose accumulation is restricted by

the amount of saved profit (minus the consumed part), the joint-stock company expands not only through the accumulation of its own profit; it has the entire money capital (of the capital market) at its disposal, to expand production. In this way, it removes the barriers arising due to the dispersal of capital among incidental, passive owners. Thanks to this the joint-stock company can extend production in strict accordance with the requirements of technology. With larger reserves and the ability to rapidly expand capital, joint stock companies can adapt more easily to changes in the business cycles. They are able to take advantage of the period of economic prosperity in a quicker, better and more efficient way and they are more resilient to crises (also because they can sustain production with sales below the production price, that is the production cost plus the average profit, selling at a price reduced to the production costs plus a rate of interest lower than the average profit including interest).

Hilferding criticized the illusion of the democratization of ownership through shares. He noted that a shareholder is only entitled to a proportional share in the surplus value, simultaneously losing the ability to influence the course of production. This restriction gives the owner of the majority of the stocks an unlimited power over the minority.

In Hilferding's view, the development of joint-stock companies is equivalent to a rapid process of capital centralization and hence concentration of production. Thus, it constituted a fertile ground for the emergence of capitalist organizations monopolizing production. Without the centralization processes in the form of the expansion of joint-stock companies, economic growth would be much slower. Furthermore, monopolization of production leads to changes in the division of labour. Through progressive merging, once separate and independent branches of production are abolished. Hence, there is a constant shrinking of the social division of labour, that is the division into various branches of production, previously connected only through exchange into one social organism. Simultaneously, the technical division of labour within the giant horizontally and vertically integrated enterprises expands continuously.

The second element necessary to understand the Hilferdingian notion of finance capital is his analysis of the new role of banks. In Marx's times, banks functioned firstly as intermediaries in the turnover of money and secondly as reservoirs of money capital released in the process of capital circulation, but also condemned to temporary idleness. Consequently, banks also functioned as a centre transforming this idle capital into functioning money capital. In this way the social capital tied up in the circular movement was reduced to a necessary

minimum. The third function of banks was to accumulate revenue of all other classes in the monetary form and to transfer these funds to the capitalists' disposal.

The outcome of the progressive centralization of banking capital was the transition from issuing credit for the purposes of capital turnover to the provision of credit for fixed capital –investment credit, which is, in principle, more long-term than credit for circulating capital. As a result, the bank-creditor became interested in the business conditions of the debtor-enterprise. The bank reserves its right to financial control. Through its representatives in the supervisory board it participates in the management of the industrial enterprise. Having the ability to give and withdraw credit, it gains a major influence over the management of the enterprise. As a creditor, the bank constitutes the more powerful party in this relation.¹³

The closer personal union between banks and industry and the strengthening of the role of banks favours shareholder capital. While establishing joint-stock companies, the founders usually utilize banks, which have the best knowledge of the stock market operation mechanism due to their constant activity in the capital markets. Banks often advance the capital needed by the stock company founders, followed by sales of shares and realization of the founder's profit. Sometimes, the bank retains a large portion of shares, anticipating that their price will increase considerably in the future. The stock market loses its significance in favour of banks.

Cartelization of industry increases the significance of banks and expands the scope of their influence. As a result, banks more frequently dispose of industrial capital. The dependence of industry on banks is, in Hilferding's view, a consequence of changes in ownership relations. 'An ever-increasing part of the capital of industry does not belong to the industrialists who use it. They are able to dispose over capital only through the banks, which represent the owners. On the other side, the banks have to invest an ever-increasing part of their capital in industry and in this way they become to a greater and greater extent industrial capitalists. I call bank capital, that is, capital in money form which is actually transformed in this way into industrial capital, finance capital.'¹⁴

Finance capital advances along with the development of joint-stock companies. With the expansion of cartels and trusts, finance capital assumes the highest power. Hilferding explained that the dependence of industry on bank capital does not translate into the dependence of the industrial capitalist on the bank capitalist. Through banks, the same financial tycoons gain control over the entire national capital and industry.

As banks are of an increasingly shareholding character, stocks and shares become the tool of exercising power over both industry and banks.

Based on his observation of the turbulent progress of the centralization of banks and finance capital, Hilferding formulated the hypothesis of the tendency for establishing a bank (or a group of banks) which could seize the opportunity of having the global money capital at its disposal. 'Such a "central bank" would then exercise control over social production as a whole.'⁵

Hilferding elaborated Marx's thesis of the banking system as the social form of audit and division of the means of production on the social scale, known from the third volume of *Capital*. He argued that 'a fully developed credit system is the antithesis of capitalism, and represents organization and control as opposed to anarchy. It has its source in socialism, but has been adapted to capitalist society; it is a fraudulent kind of socialism, modified to suit the needs of capitalism.'⁶

Hilferding linked the prospects of socialism with the socialization of production by finance capital. 'It socializes other people's money for use by the few. At the outset it suddenly opens up for the knights of credit prodigious vistas: the barriers to capitalist production – private property – seem to have fallen, and the entire productive power of society appears to be placed at the disposal of the individual.'⁷ This signifies the establishment of the social control of production, socialization in the antagonistic form. The struggle to expropriate the oligarchy dominating over production is the final phase of the proletarian class struggle with the bourgeoisie. Finance capital is the final necessary condition for socialism, exceptionally facilitating the defeat of capitalism.

In later years, this distinct function of banks is undermined by the consolidation and strengthening of the organizations monopolizing production. Large modern monopolies simply move on to self-financing. The rapid growth of capital engaged in production through internal accumulation limits the role of the investment credit. Banks gradually become an auxiliary institution organized by the monopolies. Thus, Hilferding's thesis of the dominance of banks over production stemmed from the specific historical conditions of that time. This significantly alters the meaning and reduces the significance of the concept of 'finance capital'.

Analysing the forms and processes by which monopolistic competition is substituted for free competition and its related mechanisms, Hilferding was one of the first economic theorists to recognize the characteristic features of the monopoly price. In his view, in the conditions in which monopoly prices prevail, demand cannot be defined or measured. In this instance, it is not possible to determine how demand

will react to an increase in prices.⁸ While this view has lingered on for many years and might have had a hindering effect on the development of the theory of monopoly prices, it is too pessimistic in the light of the present condition of economic theory, and of econometric methods in particular. Current analysis of the flexibility of demand allows for a precise estimation of the future demand. This research has developed precisely to serve the needs of monopolistic organizations. The fundamental difficulty of capitalism lies not in the inability to predict consumers' response to a price increase, but in the difficulty to consciously determine supply, adjusting its magnitude to a given level of demand. Hilferding's pessimistic view arose out of the condition of economic knowledge at that time and not out of the essential practical difficulties of monopolistic organizations.

Such a starting point led Hilferding to overemphasize a purely psychological and subjective character of the monopoly price. The following statement is symptomatic: 'Monopoly price can indeed be fixed empirically, but its proper level cannot be apprehended in an objective theoretical manner, only grasped psychologically and subjectively. For this reason the classical school of economics, in which I also count Marx, excluded monopoly price ... from their reasoning ... If monopolistic combinations abolish competition, they eliminate at the same time the only means through which an objective law of price can actually prevail. Price ceases to be an objectively determined magnitude and becomes an accounting exercise for those who decide what it shall be by fiat, a presupposition instead of a result, subjective rather than objective ... It seems that the monopolistic combine, while it confirms Marx's theory of concentration, at the same time tends to undermine his theory of value.'⁹

This view did not prevent Hilferding from realistically defining certain boundaries of the monopoly price (often called by him 'cartel price'). If the sources of raw materials become dominated by monopolies (e.g. iron ore mines and pig-iron production), the outcome would be an increase in pig-iron prices. In this way, cartels capture part of the profits generated in the non-cartelized branches of the metal industry, lowering the latter's rate of profit. Thus, distinct profit rates emerge in the cartelized and non-cartelized industry. The cartel price can rise by as much as profit decreases, that is, by as much as prices fall below the level of production prices of the non-cartelized industrialists. If among the latter joint-stock companies are widespread, the decrease in prices cannot be larger than $c + i$ (cost price plus interest). Hence, the first boundary is defined by 'the extent to which it is possible to reduce the rate of profit in the non-cartelized industries'.¹⁰ This means

that non-cartelized branches of industry are left with such a rate of profit which allows them to continue production. However, Hilferding emphasizes the fact that the best way for the non-cartelized enterprises to escape the consequences of cartel prices is to enter the cartel themselves. Consequently, the monopoly price is a powerful tool of progressive monopolization. The second boundary of the cartel price is defined by the aggregate size of consumption, which starts shrinking at a certain price level. However, this second limitation is somehow ignored by Hilferding, who argues that in capitalist conditions it is the market for the means of production, whose significance is decisive.

The analysis of the changes in production in the new phase of capitalism (from the joint-stock company through monopolies and the analysis of the mechanism of monopoly price formation)¹¹ led Hilferding to state the theoretical possibility of the emergence of a general cartel. In finance, this would correspond to the aforementioned tendency towards the formation of one, powerful central bank. This is merely the outline of an abstract vision of the social economy in which production is consciously regulated by a central planning institution and prices are only a formal tool of the distribution of the total product between the members of monopolistic organizations on the one hand and the rest of the society on the other.

The following are Hilferding's words on the general cartel: 'The whole of capitalist production would then be consciously regulated by a single body which would determine the volume of production in all branches of industry. Price determination would become a purely nominal matter, involving only the distribution of the total product between the cartel magnates on one side and all the other members of society on the other. Price would then cease to be the outcome of factual relationships into which people have entered, and would become a mere accounting device by which things were allocated among people. Money would have no role. In fact, it could well disappear completely, since the task to be accomplished would be the allocation of things, not the distribution of values ... The cartel would distribute the product. The material elements of production would be reproduced and used in new production. A part of the output would be distributed to the working class and the intellectuals, while the rest would be retained by the cartel to use as it saw fit. This would be a consciously regulated society, but in an antagonistic form ... The tendencies towards the establishment of a general cartel and towards the formation of a central bank are converging, and from their combination emerges the enormous concentrated power of finance capital.'¹²

However, Hilferding writes elsewhere that the anarchic and regulated productions are contradictory not only in quantitative terms, and that hence the transition towards the conscious organization of production through introducing an increasing number of regulated elements is not possible. Such a transition can only be effected through a rapid takeover of conscious control over production. It is a matter of power. 'In itself', argues Hilferding, 'a general cartel which carries on the whole of production, and thus eliminates crises, is economically conceivable, but in social and political terms such an arrangement is impossible, because it would inevitably come to grief on the conflict of interests which it would intensify to an extreme point.'¹³

It would be interesting to analyse if and to what extent the views discussed, manifest in the concept of the general cartel, influenced the actual way in which socialist production in the first years of the Soviet state's existence was organized. Some authors identify an exaggerated impact of Hilferding's theory of finance capital not only on Lenin's theory of imperialism (which is correct), but also on Lenin's practical ideas in the first years of the Soviet government. These concepts encompass issues such as the role of the central bank – social control and audit, money and commodity production in the transition phase, state capitalism in the transitory phase, of the organization of the Soviet industry into trusts, stages of socialization, etc.

In the final part of *Finance Capital*, we find the analysis of protectionism, capital exports and the struggle for economic territory, social stratification in the new phase of capitalism and finally of the relation of proletariat towards imperialism.

1. Hilferding analysed the tendency to move away from free trade policies towards protectionist tariffs, characteristic of the new era of capitalism, as well as the changed economic function of protective tariffs.

The functions of protective tariffs transformed into their own opposite. 'From being a means of defence against the conquest of the domestic market by foreign industries it has become a means for the conquest of foreign markets by domestic industry. What was once a defensive weapon of the weak has become an offensive weapon in the hands of the powerful.'¹⁴ Capitalist organizations controlling the most powerful branches of industry capable of exporting become the new spokesmen of industry. Cartels are interested in introducing and maintaining high protective tariffs for three reasons. First, protective tariffs facilitate the cartelization of industry and protect the permanent existence of cartels through eliminating external competitors. Second, they enable cartels to sell products in the domestic market at prices containing abnormal

profit. In this instance, the higher the tariffs the higher domestic prices can be raised above world prices, thus the higher the abnormal profit. From this stems the fanatical drive to increase tariffs, as unrestricted as the striving towards profit maximization. Cartels are interested not only in high tariffs on their own products, but also on the products of other industries. For instance, a coal and steel cartel will be interested in tariffs on machinery, since high prices of machines will enable the cartel to raise prices of coal and steel.

Finally, the third reason – the abnormal profits captured in this way in the domestic market strengthens the competitive power of a cartel in the foreign market. The monopolist can dedicate part of his abnormal profit to extending his market through lowering the prices of his competitors. For that reason, he might temporarily sell his products in the foreign market below the production price, amply recompensed by an increase in production (and a decrease in costs). The same outcome can be reached by paying temporary export premiums to the domestic agents exporting his products.

The logic of competitive struggle lies in the universal nature of protective tariffs. The magnitude of the protective tariff determines power in the international competitive struggle. Raising tariffs in one country must be immediately replicated in another country in order not to exacerbate the conditions of competition for the domestic industry and not to be defeated in the world market.

2. By capital exports Hilferding rightly understands the export of value, whose task is to raise surplus value abroad for the use of domestic capital. This export can take place in two forms: through capital yielding interest (loans) and through capital yielding profit (investments). In the era of finance capital, both these forms are closely connected and intertwined. The reasons for capital export lie in the nature of monopoly capital. The establishment of joint-stock companies and cartels generates founder's profit, which is transferred to banks in the form of capital seeking profitable investment. Credit generates a surplus of free capital. The efforts to maintain high cartel price offset the striving of monopolistic organizations to expand production serving the domestic market. The difficulty is overcome by expansion into foreign markets. On the other hand, the export of finished products is usually hindered by the protective tariffs imposed on given goods by a foreign country. Expansion in the form of industrial capital export is a way to overcome the foreign tariff barrier. 'A branch of industry which is menaced by the protective tariffs of foreign countries now makes use of these tariffs for its own purposes by transferring part of its production abroad.'¹⁵

The export of loan capital becomes the means to guarantee industrial supply for the capital importing country. 'Serbia can obtain a loan from Austria, Germany or France only if it undertakes to buy its guns or its rolling-stock from Skoda, Krupp or Schneider.'¹⁶ In these conditions, the struggle for access to the world market turns into a struggle between banking groups of various nations for spheres of investment of loan capital. This becomes the main ground for the conflict of interests among the capital exporting countries. Fierce competition over economic territories leads to attempts at its destruction through including part of the world market in the domestic market, that is, through annexation of foreign territories, through the colonial policy.

Finance capital becomes the advocate of the idea of strengthening state power by all means, as the larger the economic territory, the greater the power of the state, the better the position of the domestic capital in the world market.

As a result the bourgeoisie adapts its views entirely, and becomes obsessed with the ideology of imperialism. The former ideas of peace and humanitarianism are superseded by the ideals of greatness and the power of the state. Nations' rights to their own statehood is replaced by the idea of extolling one's nation above others, by the idea of ruling the world, ideas which are as unrestricted as striving towards profit maximization. The economic preference for the monopoly is manifest in the preference for one's nation. Already at the start of the twentieth century Hilferding anticipated specific forms of the fascist ideology. 'Since the subjection of foreign nations takes place by force – that is, in a perfectly natural way – it appears to the ruling nation that this domination is due to some special natural qualities, in short to its racial characteristics. Thus there emerges in racist ideology, cloaked in the garb of natural science, a justification for finance capital's lust for power, which is thus shown to have the specificity and necessity of a natural phenomenon. An oligarchic ideal of domination has replaced the democratic ideal of equality.'¹⁷

Hilferding carefully observes the escalation of militarism and the military conflict against the uneven industrial development of the imperialist superpowers. In particular, he notices that, without colonies, a rapidly growing Germany dramatically exacerbates the international situation, bringing closer a general military catastrophe.

3. Hilferding finishes his exposition of the theory of finance capital with the revolutionary conclusions, which were completely

contradictory to the later practice of the German Social Democracy. The imperialistic policy of militarism and colonialism leads inevitably to military complications, to a violent clash of the capitalist countries. War brings to an extreme the poverty of the masses, and their revolutionary spirit. The imperialist policy leads to political and social (but not economic, 'for the idea of a purely economic collapse makes no sense') disaster. Hilferding assigns to the proletariat the role of the heir after the catastrophe. However, the proletariat can only fulfil this role if it constantly explains the inevitable consequences of this policy to the (broader masses of the) people, if it engages in relentless struggle against the imperialist policy. Simultaneously, Hilferding strongly emphasises that proletariat's response to the imperialist policy cannot be free trade, 'but only socialism'. Precisely because of imperialism, socialism ceases to be a distant ideal and becomes a practical element of policy for the proletariat. Assumption of political power becomes an immediate task and an indispensable condition of the victory of the proletariat.

The proletariat is no longer isolated in this struggle, but gathers broader masses of the contemporary society under its command. Here are Hilferding's words: 'The struggle against imperialism intensifies all the class contradictions within bourgeois society. The proletariat, as the most decisive enemy of imperialism, gains support from other classes. Imperialism, which was initially supported by all other classes, eventually repels its followers. The more monopolization progresses the greater is the burden which extra profit imposes upon all other classes. The rise in the cost of living brought about by the trusts reduces living standards, and all the more so because the upward trend in food prices increases the cost of the most essential necessities of life. At the same time the tax burden increases, and this also hits the middle classes, who are increasingly in revolt. The white collar employees see their career prospects fade, and begin to regard themselves more and more as exploited proletarians. Even the middle strata in commerce and industry become aware of their dependence upon the cartels, which transform them into mere agents working on commission.'¹⁸ 'In the violent clash of these hostile interests the dictatorship of the magnates of capital will finally be transformed into the dictatorship of the proletariat.'¹⁹

10

Lenin on Imperialism and the Accumulation of Capital

The theory of imperialism is the best known part of Vladimir Lenin's theoretical work – it is a part of any basic exposition of political economy. For that reason, it is not presented in a systematic way even in the history of economic thought. Such systematic exposition is even less necessary in a monograph on Rosa Luxemburg's theory of accumulation. However, it is useful to highlight the most fundamental features of Lenin's theory of imperialism as distinct from other attempts at the theory of imperialism, as well as to present the conditions and circumstances of its development. Such an approach to Lenin's theory will facilitate the assessment of the place of Rosa Luxemburg's work in the development of the theory of modern capitalism.

The fundamental elements of the Leninist theory of imperialism are – similar to Hilferding – two strands of the argument: the analysis of the development, role and significance of the monopolistic organizations; and the analysis (of the contradictions and developmental tendencies) of the world economy as a whole.

As already mentioned, the first aspect – the economic and political significance of cartels and trusts – was actively discussed in the European socialist literature as early as the start of the twentieth century. A significant portion of disputes in the period of the big debate, between the orthodox Marxists and Bernstein and his followers, revolved around cartels and trusts. Already in 1899, Rosa Luxemburg took up these issues in a systematic way. In Lenin's abundant theoretical legacy, as well as in the works of Plekhanov, Bukharin and other Russian Marxists, we find a weak response to these problems. Until the war, Lenin did not write a single contribution on this topic. This is nevertheless understandable. Until the war, Lenin was preoccupied predominantly with the internal economic problems of Russia,

where monopolistic organizations came to play a significant role much later than in the West. In Russia, the basic range of issues consisted of the problems of the first stage of capitalist development, primarily the issues related to the emergence of the capitalist sector in a semi-natural agrarian economy.¹

The situation of the Marxist economists in Russia was similar in respect of the second aspect of the argument. In numerous articles, Lenin wrote about American, German and French imperialism, about contradictions between the major colonial superpowers, about the social awakening of the Asian nations, etc. However, up until the First World War they constitute individual remarks spread over journalistic articles, none of which anticipated the future, coherent theory of the new phase of capitalism. None of his earlier works contains the attempt to depict the world capitalist economy in its entirety, to connect imperialist policy with monopolies and finance capital.

The First World War – the classic imperialist war marks a fundamental turn in the approach of Lenin and other prominent Russian Marxists to economic and political issues. This is indicated for example by a fragment from Nikolai Bukharin's intellectual biography. In the period directly preceding the world war, Bukharin was preoccupied with writing a book on a rather academic topic – his famous critique of the Austrian psychological school.² After the outbreak of the war in 1914–1915, he took up the problem of imperialism, which resulted in the book *Imperialism and World Economy*.

During the war, the problems of imperialism, war and revolution came decisively to the forefront of Lenin's work. As early as 1914 and 1915, Lenin wrote many publications analysing the economic and political roots of the war at that time, while such works as 'Socialism and War', 'On the Slogan for a United States of Europe', the foreword to Bukharin's work on imperialism, and so on clearly anticipate certain theses of Lenin's main study of imperialism.

Let us turn our attention to some of these theses, particularly those less known theses. In the press report of Lenin's paper on 'The Proletariat and war', presented in October 1914, we read: 'All European countries have already reached an equal stage in the development of capitalism, all of them have already yielded everything that capitalism can yield. Capitalism has already attained its highest form, and is no longer exporting commodities, but capital. It is beginning to find its national framework too small for it, and now the struggle is on for the last free scraps of the earth.' Further: 'Imperialism is that state of capitalism when, having done all that it could, it turns towards decline.

... A struggle is on for a division of the remaining portions. It is the last historical task of capitalism.¹³ In the thesis of another paper, 'May Day and the War', Lenin takes note of the problems: 'Imperialism old and new – Rome and Britain versus Germany. Seizure of territories, colonies, division of the world, export of capital. Maturity of the objective conditions for socialism.'¹⁴

An extremely important view is contained in the short article 'On the Slogan for a United States of Europe'. 'Uneven economic and political development is an absolute law of capitalism. Hence, the victory of socialism is possible first in several or even in one capitalist country alone. After expropriating the capitalists and organising their own socialist production, the victorious proletariat of that country will arise against the rest of the world – the capitalist world – attracting to its cause the oppressed classes of other countries, stirring uprisings in those countries against the capitalists, and in case of need using even armed force against the exploiting classes and their states. The political form of a society wherein the proletariat is victorious in overthrowing the bourgeoisie will be a democratic republic ... The abolition of classes is impossible without a dictatorship of the oppressed class, of the proletariat. A free union of nations in socialism is impossible without a more or less prolonged and stubborn struggle of the socialist republics against the backward states.'¹⁵

This is the first clear formulation of the law of the uneven development of capitalism and the hypothesis of the victory of socialism initially in one or in a few countries, as well as a formulation of the internal link between these two processes. Hence the exceptional significance of this publication of Lenin – particularly since these theses were not clearly manifest in his book on imperialism.

Lenin's publications from the period preceding the appearance of *Imperialism, the Highest Stage of Capitalism* contained primarily and predominantly the analysis of imperialist policy, which was not followed by a systematic analysis of the imperialist economy. This is precisely why *Imperialism* is so significant for his theoretical work, as well as for the Marxist literature. The significance of this book is highlighted by the fact that it appeared in the period of the imperialist war, generalizing the experiences of this war, in a way that naturally could not be achieved by the earlier works of Hilferding and Rosa Luxemburg.

What about Bukharin's book *Imperialism and World Economy*, which Lenin already knew in December 1915 and to which he wrote the foreword in the same month? Similarly to Bukharin's work, the fundamental objective of Lenin's study 'to present, on the basis of the

summarized returns of irrefutable bourgeois statistics, and the admissions of bourgeois scholars of all countries, a *composite picture* of the world capitalist system in its international relationships at the beginning of the twentieth century – on the eve of the first world imperialist war'.⁶ Thus, Lenin dealt with the same range of problems as those with which Bukharin's book was concerned.

Was the reading of Bukharin's book and his attitude towards it the factor which induced Lenin to begin his own systematic study of the political economy of imperialism? Are there any circumstances which would even indirectly confirm such a hypothesis? The history of Lenin's foreword to Bukharin's book, written in December 1915 but published for the first time in *Pravda* in 1927 (although Bukharin's book was first published in 1918), seems to confirm this conjecture. Furthermore, his 'A Contribution to the theory of the imperialist state' appeared approximately at the same time as Bukharin's book. In this case, it is known for certain that Lenin was categorically opposed to its publication and this contribution was published only after Lenin's death in 1925.

A close examination of the content of the aforementioned foreword confirms the supposition that Lenin held significant reservations about Bukharin's theory of imperialism. Bukharin's book was similar in its content to the Hilferdingian theory of finance capital and imperialism. In Bukharin's view, imperialism is 'the policy of finance capital'. Furthermore, Bukharin accepted Hilferding's concept on the general cartel and even developed it further, putting forward the following hypothesis: 'Were the commodity character of production to disappear (for instance, through the organisation of all world economy as one gigantic state trust, the impossibility of which we tried to prove in our chapter on ultra-imperialism) we would have an entirely new economic form. This would be capitalism no more, for the production of *commodities* would have disappeared; still less would it be *socialism*, for the power of one class over the other would have remained (and even grown stronger). Such an economic structure would, most of all, resemble a slaveowning economy where the slave market is absent,' He added 'that (as far as capitalism will retain its foothold) the future belongs to economic forms that are close to state capitalism'.⁷ Hence, similarly to Hilferding, Bukharin allowed for the possibility of the general cartel exclusively in economic terms, emphasizing that socio-political causes would render the existence of such a system impossible.

Vladimir Lenin had a much more negative outlook – even on the mere economic possibility of such a general cartel. The Leninist formulation

of the law of uneven capitalist development indirectly appealed against such vision. In the foreword to Bukharin's book, Lenin attacked this concept unambiguously. 'Abstract theoretical reasoning may lead to the conclusion at which Kautsky has arrived – in a somewhat different fashion but also by abandoning Marxism – namely, that the time is not too far off when these magnates of capital will unite on a world scale in a single world trust, substituting an internationally united finance capital for the competition and struggle between sums of finance capital nationally isolated. This conclusion is, however, just as abstract, simplified and incorrect as the similar conclusion drawn by our Struvists and Economists of the nineties.'⁸

Comparison of these statements indicates a rather different emphasis in the respective positions of Bukharin and Lenin. This suggests the following sequence of events. In December 1915, Lenin was writing the aforementioned preface, assuming that Bukharin's book on imperialism and the world economy would be published shortly. However, Lenin was not satisfied with the hope that this book would be published and he began his own study of imperialism and the world economy. This marks the period of Lenin's intense work in the library of Berne, and then of Zurich, working through the entire first half of 1916. Its outcome is primarily *Imperialism, the Highest Stage of Capitalism*. Nonetheless, the so-called *Notebooks on Imperialism*, published many years after his death, are essential for understanding Lenin's scientific technique. They contain summaries of Lenin's readings at that time, outlines and notes and various preparatory material for his completed book.

In these circumstances, it is very tempting to conclude that Lenin deemed it necessary to write his study precisely because of Bukharin's forthcoming book, (at least indirectly) as a critical response to this work. Of course, Lenin did not dispute directly with Bukharin's unpublished work; however, his polemic, or rather his substantive emphasis on the differences with Hilferding's *Finance Capital*, is simultaneously a dispute with Bukharin's view.

Thus, it is worthwhile to examine the differences in the depiction of imperialism by Hilferding on the one hand and Lenin on the other. In the introductory part of the work, Lenin wrote about *Finance Capital*: 'In spite of the mistake the author makes on the theory of money, and in spite of a certain inclination on his part to reconcile Marxism with opportunism, this work gives a very valuable theoretical analysis of "the latest phase of capitalist development".'⁹

Confrontation of the works of Hilferding and Lenin leads to the conclusion that they differed not only in the political terms (the issue of

reconciling opportunism with Marxism) but also in significant theoretical-economic aspects. They amount to the following points:

1. As can be recalled, Hilferding regarded finance capital as the most characteristic economic feature of the new phase of capitalism. In his view, this was the era of finance capital, along with the dominant role that banks assumed over industry in this period. In contrast, Lenin highlighted the dominance of monopolistic organizations over production as the leading feature of the new era.
2. Hilferding, Kautsky and Bukharin in different ways and to a varying extent linked imperialist policy with changes in the economic structure. Nevertheless, they treated the economics of the new phase of capitalism and the politics of this phase as two separate issues and distinct categories. Lenin understood imperialism as a unity of the economics and politics of this new phase of capitalism. In his view, imperialism translated into the dominance of monopolies both in economic and political life. Hence, his predecessors used the concept of imperialism in a more traditional meaning, while Lenin assigned to this term a new, broader content. This understanding of imperialism is manifest primarily in the Leninist definition of this phase. 'If it were necessary to give the briefest possible definition of imperialism we should have to say that imperialism is the monopoly stage of capitalism.'¹⁰ And slightly further on – a more exhaustive definition: 'Imperialism is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed.'¹¹ Thus, Lenin attempted to refer directly to the Marxist tradition. As Marx characterized all the main spheres of social life in the capitalist formation (economic, political and ideological sphere) by the term 'capital', similarly Lenin characterized the new era as the highest and final stage through the lapidary term 'imperialism'. Of course, this concept is much richer in its content and conveys much more than the colloquial term 'contemporary capital' that is often used interchangeably.
3. Another difference between Lenin's views, on the one hand, and Hilferding's and Bukharin's, on the other, concerns the essence of the monopoly itself. In this matter, Lenin disputed with Hilferding directly, writing about the 'parasitism and decay' of capitalism in the era of imperialism. Emphasizing that this feature of imperialism is

not sufficiently highlighted and adding that one of the shortcomings of 'the Marxist Hilferding is that on this point he has taken a step backward compared with the non-Marxist Hobson', Lenin formulates a general theoretical thesis as follows: 'As we have seen, the deepest economic foundation of imperialism is monopoly. This is capitalist monopoly ... Nevertheless, like all monopoly, it inevitably engenders a tendency of stagnation and decay. Since monopoly prices are established, even temporarily, the motive cause of technical and, consequently, of all other progress disappears to a certain extent and, further, the economic possibility arises of deliberately retarding technical progress.'¹² Naturally, Lenin emphasized that he was concerned with the tendency towards stagnation and decay and not with a direct, realistic summary of the existing state of affairs. It is known that he even emphasized that in the meantime capitalism as a whole develops more rapidly than previously.

These three points contain the fundamental dissimilarity of the Leninist theory of imperialism from the Hilferding-Bukharin theory. Of course, this also applies to the aforementioned law of the uneven development of capitalism, particularly in the era of imperialism, and to conclusions stemming from this law regarding the uneven, that is, nonconcurrent victory of socialism in the individual countries.

After 1918, that is, after writing his main work on imperialism, Lenin developed his theory further in a few important points. A year later, he had already formulated his view on state-monopoly capitalism in his pamphlet 'The Impending Catastrophe and How to Combat it' (which Bukharin suspected to refer to the earlier thesis on the formation of monopolistic state trusts). In his main book, and even in earlier publications, Lenin recognized the new role of the underdeveloped countries and the national liberation revolutions. Nonetheless, the issue was more fully highlighted in a few later works, such as 'A Caricature of Marxism and Imperialist Economism' (1917), a jubilee article for the tenth anniversary of *Pravda* (1921), a paper for the third conference of the Communist International (1921), 'Better Fewer, but Better' (1923) and others. In these works, Lenin regarded the economically backward and politically dependent countries as a significant and independent revolutionary factor, leading to the breakdown of the capitalist world economic system, the factor which along with the revolutionary struggle of the proletariat in the developed countries will decide on the victory of socialism.

Lenin never undertook a systematic critical analysis of Rosa Luxemburg's work. Apart from one, rather brief, opinion, all his insights

remained in Lenin's notes, published after his death from the archives. Hence, none of his critical remarks is backed with evidence. They are rather casual opinions, which could have constituted a starting point for a systematic analysis. In this sense, Lenin was not a critic of Rosa Luxemburg's *Accumulation*, although his attitude towards it was critical. Nevertheless, these casual opinions played an important role in the criticism of what was called luxemburgism. Furthermore, his casual remarks on the problem of realization were applied to Rosa Luxemburg's theory of imperialism. In order to evaluate the correctness of these operations, we need to put Lenin's notes under close scrutiny.

Lenin's statements on Rosa Luxemburg's economic theory quoted until now are of very general nature and their quantity is rather modest. All of them can be easily presented.

Lenin's initial reaction is exceptionally sharp:

'I have read Rosa's new book *Die Akkumulation des Kapitals*. She has got into a shocking muddle. She has distorted Marx. I am very glad that Pannekoek and Eckstein and O. Bauer have all with one accord condemned her, and said against her what I said in 1899 against the Narodniks. I intend to write about Rosa for No. 4 of *Prosveshcheniye*.'¹³

This is an excerpt from the letter written in March 1913 from Cracow to the Parisian editorial office of the Russian journal *Sotsial-Demokrat*. This letter was first published in the fourth edition of Lenin's Collected Works; hence, it was not widely known to the general public at that time. Nevertheless, it can be assumed with a high level of probability that this opinion on Rosa Luxemburg's book was known to his closest collaborators, theorists in particular. The editorial board of Lenin's Collected Works informs that he did not write the announced article. In his manuscripts, we find – also published relatively late – an outline of the article 'Rosa Luxemburg's Unsuccessful Addition to Marx's Theory'.

Here is its complete translation (p. 322)¹⁴:

Roughly:

- I. 14 years ago. Narodniks versus marxists.
Legal marxists and social-democrats
- II. Distortion by R. Luxemburg.
- III. State of theoretical problems.
- IV. Rosa Luxemburg's [«additions»] Critique. Anti-Critique.
- V. Rosa Luxemburg's «addition». Failure
- V. *bis*. German Social-Democrat Press and the 'Trouble-maker'.
- VI. Dialectics and Eclectics
- VII. Imperialism and realization Surplus-value (Rothstein etc.).¹⁵

Apart from that, four pages of marginal notes written while reading the *Accumulation of Capital* were found in Lenin's archives. These remarks only refer to a part (less than half) of Rosa Luxemburg's work. These notes constitute a report from reading the following pages of Rosa Luxemburg's book: on the first sheet, folded in two – on page 1, notes to pp. 1–39, on the second page to pp. 243–94, on the third – to pp. 299–340. On the second sheet, there are references to pages 159–68 of the German edition. As in the editorial note of *Leninskiy sbornik* we do not find any more detailed explanations or justification why the publisher assumes that part of Lenin's notes was lost; one cannot rule out the possibility that Lenin simply read only this part of the work or that he only made notes on these fragments which he read systematically. He skimmed through the rest. It should not be forgotten that Lenin did not write the intended article and that the notes themselves seem to be too weak a basis for the opinion expressed in the editorial note of the *Sbornik*, saying that 'Lenin's remarks along with the outline of his article constitute *the only correct approach* [emphasis by authors of the editorial note – T.K.] to the criticism of R. Luxemburg theory of accumulation and they bear invaluable significance for the understanding of the problem as a whole'.

Let us take a closer look at these remarks, although we do realize that the meaning of many of them cannot be reconstructed. This applies particularly to all the numerous exclamation marks, underlines, question marks, abbreviations of words 'nota bene', whose meaning is difficult to detect. We merely point out that Lenin meticulously took note of all places in which Rosa Luxemburg criticized his earlier works, as well as those places about which he was certain that the author relied on his book *Development of Capitalism in Russia*, extracting the quotes of Smith and others. It is clear that his impression of the literary technique of the author of *Accumulation* was not favourable.

Criticizing Sismondi's theory, indicating that he made the same error in the theory of reproduction as Smith, Rosa Luxemburg noticed: 'Yet, if later critics of Sismondi, e.g. the Russian Marxist Ilyin,¹⁶ think that pointing out this fundamental error in the analysis of the aggregate product can justify a cavalier dismissal of Sismondi's entire theory of accumulation as inadequate, as "nonsense", they merely demonstrate their own obtuseness in respect of Sismondi's real concern, his ultimate problem. The analysis of Marx at a later date, showing up the crude mistakes of Adam Smith for the first time, is the best proof that the problem of accumulation is far from solved just by attending to the equivalent of the constant capital in the aggregate product' (p. 163).¹⁷

Another clash with Lenin directly refers to the problem of the more rapid growth in department I (producing the means of production)

relative to the second department. The author dealt with this issue in chapters devoted to the critical analysis of Tugan-Baranovsky's theory of realization. At this point, let us recall, this theory amounted to explaining the whole issue of realization and crises through the 'fundamental' law of capitalist production, that is, the law of faster growth of constant capital than of variable capital. Capitalism was to create its own market, dependent to a decreasing extent on consumption; hence, as long as the proportion between various branches and divisions is maintained, capitalism can develop without crises.

An unsuccessful part of Rosa Luxemburg's critique of Tugan-Baranovsky, the critique which nevertheless hit the heart of the matter at certain points, was to set this law of capitalist economy against the general law functioning in all formations. In her view, the growth of constant capital at the cost of variable capital is merely a capitalist manifestation of the general effects of increasing labour productivity. 'The formula c greater than v ($c > v$), translated from the language of capitalism into that of the social labour process, means only that the higher the productivity of human labour, the shorter the time needed to change a given quantity of means of production into finished products. This is a universal law of human labour. It has been valid in all precapitalist forms of production and will also be valid in the future in a socialist order of society ... In a planned and controlled social economy, organised on socialist lines, this transformation would in fact be more rapid even than it is in contemporary capitalist economy' (pp. 300–1).¹⁸

Starting with such a conviction, Rosa Luxemburg dismissed as incorrect not only the nearly absurd views of Tugan, but also the much more moderately formulated views of Lenin. Remarking that Tugan-Baranovsky naturally went further than others in this instance, she nevertheless maintained that in his dispute with the Narodniks, Lenin expresses himself in a manner similar to Tugan and Bulgakov (p. 296). To support this thesis, she referred to the following fragment of Lenin: 'It is well known that the law of capitalist production consists in the fact that the constant capital grows more rapidly than the variable capital, that is to say an ever increasing part of the newly formed capital falls to the department of social production which creates producer goods. In consequence, this department is absolutely bound to grow more rapidly than the department creating consumer goods, that is to say, the very thing happens which Sismondi declared to be "impossible", "dangerous", etc. In consequence, consumer goods make up a smaller and smaller share of the total bulk of capitalist production, and this is entirely in accordance with the historical "mission" of capitalism and

its specific social structure: the former in fact consists in the development of the productive forces of society (production as an end in itself), and the latter prevents that the mass of the population should turn them to use.¹⁹

From the historical point of view, in this dispute it was Lenin who was fundamentally right. The historical mission of capitalism did amount primarily to the mechanization of production, to introducing machine production. The 'law of capitalist development' indeed functioned within this fundamental mission, manifest in an increasing transfer of the socially indispensable time to the department producing the means of production. It was particularly correct to apply this law to the conditions in Russia at that time, where the process of industrialization was in its first, still very primitive phase. It was precisely this phase of industrialization in tsarist Russia that was analysed by Lenin when preparing *Development of Capitalism in Russia*. All his research materials at that time led him to the aforementioned conclusion, which was completely ignored by the Narodnik economists. The operation of this 'law of the development of capital' has been recently questioned on grounds of change in the conditions that, in principle, occur only after capitalism completes its historical mission, that is, after completing the mechanization of production. It is only then that technical progress, other than that of a capital-using kind (that is, neutral and capital-saving technical progress) becomes apparent to a greater extent.

Furthermore, Lenin took note of the places in which Rosa Luxemburg disputes with Marx or expresses the view on contradiction between volumes II and III of *Capital*, firmly disagreeing with her opinion. Lenin attaches many exclamation marks to Rosa Luxemburg's views concerning the impossibility of realizing surplus value in pure capitalism, and he describes the thesis of surplus value realization in the non-capitalist environment as nonsense. Elsewhere, noting down her sentence on the 'conditions of realisation of surplus value', he puts a question mark and adds: 'not only surplus value but also $c + v$ '.

In Lenin's notes, we only find two minor, but interesting remarks on the chapters of *Accumulation* discussing the practice of imperialism by the Western European countries. Lenin noted: 'Chapter twenty eight: "The Introduction of Commodity Economy". In the beginning: realising Mehrwert, and further, account of forced introduction of opium in China...in 1839...What erudition!' In the margin of the description of the conquest of Egypt, a remark of the same nature – the description does not mean at all that the conquest was for the sake of realizing surplus value. Here, Lenin accurately described the non-theoretical,

or rather insufficiently theoretical, character of the last few chapters of Rosa Luxemburg's work, devoted to the analysis of imperialist practice. However, in Lenin's notes there is unfortunately no direct comment on the theory of imperialism.

So much for Lenin's notes.

The only opinion on *Accumulation* published by Lenin himself is the relevant fragment of the renowned study on Karl Marx, which appeared in Granat's encyclopaedia dictionary in 1915. The fragment, contained in the bibliographical part of the article, is as follows: 'On the question of the Marxist theory of the accumulation of capital there is a new work by Rosa Luxemburg. *Die Akkumulation des Kapitals* (Berlin, 1913), and an analysis of her incorrect interpretation of Marx's theory by Otto Bauer, "Die Akkumulation des Kapitals" (*Die Neue Zeit*, XXXI, 1, 1913, S. 831 und 862). See also Eckstein in *Vorwärts* and Pannekoek in *Bremer Bürger-Zeitung* for 1913.'²⁰ This remark, being a clear repetition of the content of the aforementioned letter in a more moderate form, is characteristic because of its context. As in the letter, Lenin only pays attention to the theoretical layer of the article, referring to the interpretation of Marx and expressed in the main title of Rosa Luxemburg's work (the *Accumulation of Capital*). However, he ignores this layer of the author's argument which is described by the subtitle of the work: *A Contribution to an Economic Explanation of Imperialism*. Regarding this issue, Lenin refers (in terms of the pre-war literature) only to R. Hilferding's *Finance Capital*.²¹

Hence, a question arises why Lenin did not refer to Rosa Luxemburg's work (apart from this brief remark) in any of his works on imperialism. It is possible that this neglect was dictated by tactical-political considerations. Like many later Marxists (e.g. Bukharin and Ryng), Lenin argued that Rosa Luxemburg's book is wrong in its foundations. However, as far as possible one should not bring discredit upon one of the most prominent leftists of the European Social Democracy; even more so since the imperialist war highlighted with all its force the fundamental unity of action of these two prominent Marxists.

A more far-reaching thesis that *Accumulation* led him to various contradictory emotions and opinions seems to be so unlikely that it seems appropriate to accept the statements quoted above as a realistic expression of Lenin's attitude towards the *Accumulation of Capital*.

Furthermore, let us notice that even in these unpublished opinions Lenin did not make any assessment of the internal contents of Rosa Luxemburg's theoretical views. He did not provide any foundations for the opinion that her errors form some logically consistent and coherent

system of views. Moreover, we do not find any suggestion attributing to her the theory of the automatic breakdown of capitalism.

Nowadays, it is not possible to give a satisfactory answer to the question why Lenin's remarks on the *Accumulation of Capital* were formulated in an exceptionally harsh manner ('she has got into a shocking muddle' etc. In one instance, the editors of the *Sbornik* were even forced to omit an excessively drastic expression in his notes). Nevertheless, it seems that the verbal form of Lenin's reaction was influenced by the following event. The text clearly implies that both of the documents as well as the notes from the reading of *Accumulation* quoted above (which are discussed later) come from the same period, perhaps from the same week in March 1913. The years 1912–1913 are precisely the period of the greatest and most acute conflict between Lenin and Rosa Luxemburg and Tyszká [Leon Jogiches] on political-organizational matters. On the issue of the well-known split of the Social Democracy of the Kingdom of Poland and Lithuania (SDKPiL), Lenin stood firmly in favour of nationally-based organizations, opposed by the Executive Committee of SDKPiL, with Rosa Luxemburg and Tyszká at the forefront. Lenin expressed this publicly in numerous publications. For instance, one of them begins with the following sentence: 'The Berlin group of Polish Social-Democrats (Rosa Luxemburg, Tyszká and Co.), which the Polish worker Social-Democrats emphatically repudiate, is irrepressible. It persists in calling itself the "Executive Committee" of the Polish Social-Democratic Party, although there is not a person in the world who can say what this miserable Executive *without* a party "administers".'²²

Of course, by suggesting the influence of political relations between Rosa Luxemburg and Vladimir Lenin at that time on his assessment of *Accumulation*, we have in mind exclusively the form of his remarks (not intended for publication) and not their substance, originating in a different theoretical approach to the issue of capital accumulation.

It is only at this point that we can return to the issue of the relationship between Rosa Luxemburg's and Vladimir Lenin's respective theories of imperialism. While writing his study of imperialism, Lenin referred to a rich literature. In particular, he used the analytical results of two authors: John Hobson and Rudolf Hilferding. Hence, does not the fact that he did not even once refer to the much more recent book of Rosa Luxemburg indirectly imply that we are dealing with two fundamentally different, and even (as was often suggested) contradictory theories of imperialism? In comparing the two, is it legitimate to analyse the fundamental differences while dismissing non-existent or certainly of secondary importance?

I represent the view that both of these theories are complementary to each other and that Lenin's study can to a certain extent be regarded as a synthesis of the works of R. Hilferding and Rosa Luxemburg.

Since this view expressed earlier in print has evoked opposition,²³ I will try to elaborate on the arguments in its favour in a different way than previously.

The similarity of views between Rosa Luxemburg and Lenin on the increasing significance of the underdeveloped countries as a source of fragility in the capitalist system is easily accepted. However, it is argued that this similarity does not apply to the theory of imperialism. Is that so?

It is true that there is a fundamental difference between Lenin's and Rosa Luxemburg's definition of imperialism. The author of *Accumulation* used to term 'imperialism' in a more traditional sense. Since ancient times, although primarily in Britain, this concept has signified the predatory, expansionary policy of numerous superpowers. In contrast, Lenin attributed a wider meaning to this traditional term, understanding imperialism as fundamental features of the new era in both politics and economics. For him, imperialism was nearly a synonym of monopoly capitalism. However, is it sufficient to compare these two concepts of imperialism? Can one agree with Fred Oelssner that by putting Karl Kautsky's definition of imperialism under destructive criticism, Lenin simultaneously crushed Rosa Luxemburg's theory?²⁴ This seems to be another simplification. It would neglect the significant fact that for Rosa Luxemburg, this rather traditional understanding of imperialism as the policy of capitalist superpowers was accompanied by the extended concept of capitalist accumulation. Hence, in contrast to Karl Kautsky, who understood imperialism as one of the possible policies of the capitalist superpowers, Rosa Luxemburg argued that capitalist accumulation is, as a rule, characterized by violence, fraud, oppression and theft, policies of colonies, spheres of interests and wars. In her view, imperialism was a necessary policy, which inevitably followed from the most fundamental characteristics of capital accumulation. In this sense, she was much closer to Lenin than Kautsky, although Lenin was not keen to criticize Marx for analysing the process of primitive accumulation too narrowly or Engels for understanding the era of free trade too broadly and perhaps too literally. Furthermore, if one takes into account Rosa Luxemburg's declaration that she regarded cartels and trusts as specific phenomena of the imperialist phase and that she did not analyse them further because they exceeded the scope of her study, the actual and not the formal-definitional content of the concept of 'imperialism' will turn out to be similar in Rosa Luxemburg and in Lenin.

Of course, this similarity of views in understanding imperialism also draws in Rudolf Hilferding as the author of *Finance Capital*. However, a certain convergence of views between Lenin and Rosa Luxemburg takes place in opposition to Rudolf Hilferding. This is on the issue of effective demand, where one might perhaps least expect a convergence of the theories of imperialism of Rosa Luxemburg and Lenin, who rejected her attempts to complete Marx and to renew Lenin's outdated debate with the Narodniks so categorically. However, did Lenin maintain his former views when he was writing his study of imperialism, that is, of mature capitalism, in which the issue of effective demand becomes a major problem?

There is at least one, but firm reason to argue that it was not the case. In contrast with the later critic of Rosa Luxemburg's theory of accumulation, Nikolai Bukharin, who was a consistent follower of the Hilferdingian analysis in terms of the theory of imperialism, Lenin regarded this strand of the analysis as too one-sided and insufficient. With all due attention, he used Hilferding's study, considering it a theoretical analysis of the highest value. Nevertheless, he simultaneously held John A. Hobson's *Imperialism* in equally high esteem, identifying it as 'a very good and comprehensive description of the principal specific economic and political features of imperialism'.²⁵ Furthermore, in the chapter 'The Parasitism and Decay of Capitalism', Lenin sharply contrasted Hobson with Hilferding, accusing the author of *Finance Capital* of ignoring the tendency towards stagnation and decay that is inherent in monopolies.

Moreover, Lenin's analysis of capital exports is nearer to Hobson than to Hilferding. Lenin wrote: 'an enormous "superabundance of capital" has arisen in the advanced countries'.²⁶ 'The necessity for exporting capital arises from the fact that in a few countries capitalism has become "overripe" and (owing to the backward stage of agriculture and the impoverished state of the masses) capital cannot find a field for "profitable" investment'.²⁷ These formulations are naturally far from the extremism of Rosa Luxemburg, for whom the development of capitalism without external markets is completely unthinkable, and who would tend to regard the surplus of capital as an absolute and not relative phenomenon, understandable only from the point of view of the profitability of investment. However, on the other hand the old anti-Narodnik argument, that the more rapidly developing market for the means of production replaces the more slowly developing consumption goods market, no longer appears in Lenin. Now the 'poverty of the masses' is a phenomenon connected with the superabundance of

capital in the advanced countries. And what else is the poverty of the masses (and the underdevelopment of agriculture) in this context if not insufficient aggregate demand? And how else, if not by these means, does the surplus of capital arise?

Hobson was a reformist and he believed that imperialist policy could be replaced with the policy of raising the food consumption of the masses. Lenin naturally rejected this illusion; however, at this point he did not argue (having 'overripe' capitalism in mind) that the issue of markets is non-existent for capitalism, that market cannot be separated from specialization, that it is merely the 'so-called' market question, because capitalism creates its own market, although predominantly for the means of production. 'It goes without saying that if capitalism could develop agriculture, which today frightfully lags behind industry everywhere, if it could raise the standard of living of the masses ... there could be no talk of a superabundance of capital.'²⁸ In this sense, Lenin agreed with Hobson, ignoring the erroneous theory of realization lying at the roots of his reasoning. He only argued against him that in this case capitalism would not be capitalism.

Hobson went down in the history of economic thought as one of the theorists of insufficient demand as the fundamental difficulty in the development of capitalism. For that reason he is regarded as Keynes' predecessor. In his book on imperialism, Hobson did not provide a theoretical exposition of this issue. Nevertheless, his argument is filled with the principle of insufficient aggregate demand as a spectre of the advanced capitalist countries.²⁹ Lenin utilized this work of Hobson 'with all the attention' that it deserves, as he had similarly done with Hilferding's book. In this sense, Lenin's study was, independently of its own original contribution, a conscious synthesis of the achievements of these two authors.

However, for the same reason one might argue that, to a certain extent, Lenin's synthesis contains (purifies from extremism) the main idea of the *Accumulation of Capital* of Rosa Luxemburg, who, as Hobson in bourgeois economics, was a 'heretic' in the Marxist literature.³⁰

Notes

Preface

1. M.C. Howard and J.E. King *A History of Marxian Economics Volume II 1929–1990*.
2. O. Onaran and G. Galanis *Is aggregate demand wage-led or profit-led? National and global effects* Geneva: International Labour Office, 2012.
3. P. Sweezy *The Theory of Capitalist Development Principles of Marxian Political Economy* New York: Oxford University Press 1942, p. 171.
4. See J. Toporowski *Michał Kalecki An Intellectual Biography Volume 1 Rendezvous in Cambridge 1899–1939* Basingstoke: Palgrave Macmillan 2013.
5. T. Kowalik 'R. Luxemburg's Theory of Accumulation and Imperialism' in *Problems of Economic Dynamics and Planning: Essays in honour of Michał Kalecki* Warszawa: PWN-Polish Scientific Publishers 1964.
6. Isaac Deutscher, who Tadeusz Kowalik was to meet in the 1960s, had been a member of the KPP and before joining Trotsky in Marxist opposition to Stalin.
7. N. Gąsiorowska 'Życie i działalność M. Koszutskiej' w M. Koszutska *Pisma i przemówienia tom. 1, 1912–1918* Warszawa: Książka i Wiedza 1961.
8. Róża Luksemburg *Akumulacja kapitału. Przyczynek do ekonomicznego wyjaśnienia imperializmu* Warszawa: Państwowe Wydawnictwo Naukowe 1963.
9. Mikhail Tugan-Baranowski *Studien zur Theorie und Geschichte der Handelskrisen in England* Jena: G. Fischer, 1901, Russian edition 1894.
10. '... I find myself in strong sympathy with the school of writers – Tugan-Baranovski, Hull, Spiethoff and Schumpeter – of which Tugan-Baranovski was the first and the most original ...' J.M. Keynes *A Treatise on Money 2 The Applied Theory of Money in The Collected Writings of John Maynard Keynes Volume VI* London: The Macmillan Press for the Royal Economic Society, 1971, pp. 89–90.
11. M. Kalecki *Essays in the Theory of Economic Fluctuations* London: George Allen and Unwin 1939, p. 46; *Dzieła tom 1 Kapitalizm Konjunktura i zatrudnienie* Warszawa: Państwowe Wydawnictwo Naukowe 1979, str. 446.
12. M. Kalecki 'The Problem of Effective Demand with Tugan-Baranovsky and Rosa Luxemburg' in J. Osiatyński (ed.) *Collected Works of Michał Kalecki Volume II Capitalism: Economic Dynamics* Oxford: Clarendon Press, 1991; Tadeusz Kowalik and M. Kalecki 'Observations on the "Crucial Reform"' in the same volume. See also G. Dymski "'Crucial Reform" in Post-War Socialism and Capitalism' in R. Bellofiore, E. Karwowski and J. Toporowski (eds) *Economic Crisis and Political Economy, Volume 2 of Essays in Honour of Tadeusz Kowalik* Basingstoke: Palgrave Macmillan 2014; and, in the same volume, John King 'Whatever Happened to the "Crucial Reform"'.
13. T. Kowalik 'Biography of Michał Kalecki' in *Problems of Economic Dynamics and Planning Essays in Honour of Michał Kalecki* Warszawa: Państwowe Wydawnictwo Naukowe 1964; and the same author's 'Luxemburg's and Kalecki's theories and visions of capitalist dynamics' in R. Bellofiore (ed.)

- Rosa Luxemburg and the Critique of Political Economy* London: Routledge 2009, pp. 81–91.
14. P.A. Baran and P.M. Sweezy *Monopoly Capital: An Essay on the Economic and Social Order* New York: Monthly Review Press. See also 'Tadeusz Kowalik and the Accumulation of Capital' *Monthly Review* January 2013 vol. 64, pp. 33–44.
 15. See J. Toporowski 'Rosa Luxemburg and finance' in R. Bellofiore (ed.) *Rosa Luxemburg and the Critique of Political Economy* London: Routledge 2009, pp. 81–91.
 16. Hyman P. Minsky *Stabilizing an Unstable Economy* New Haven: Yale University Press 1986, pp. 141–57.

Introduction

1. R. Luxemburg *Die Akkumulation des Kapital* Berlin 1913. The first Polish edition came out in 1963 in Warsaw. There are editions of the book in Russian, English (with an Introduction by Joan Robinson, 1951) Italian, Japanese and others.
2. [*Ein Beitrag zur ökonomischen Erklärung des Imperialismus*. This sub-title did not appear in the English translation published in 1951.]
3. J.M. Keynes *The General Theory of Employment, Interest and Money* London: Macmillan 1936.
4. [Tadeusz Kowalik was referring here to the state of capitalist economies in the 1960s, before the emergence of mass unemployment in the main capitalist countries.]
5. [Ibid.]
6. M. Kalecki *Essays in the Theory of Economic Fluctuations* London 1939, pp. 45–6.
7. M. Kalecki 'The Problem of Effective Demand with Tugan-Baranovsky and Rosa Luxemburg' in J. Osiatyński (ed.) *The Collected Works of Michał Kalecki Volume II Capitalism Economic Dynamics* Oxford: Clarendon press 1991, pp. 451–8.
8. Cf. E.E. Nemmers *Hobson and Underconsumption* Amsterdam: North Holland Publishing Co. 1956.
9. The reference here is to Kalecki's essay 'A Macroeconomic Theory of Business Cycles' *Econometrica* 1935, No. 3.
10. L. Klein review of R.F. Harrod 'The Life of John Maynard Keynes' in *Journal of Political Economy* vol. 59, no. 3, 1951, pp. 447–8.
11. For example in J. Robinson *Economic Philosophy* London 1962, p. 93, and in 'The Relevance of Economic Theory' *Monthly Review* January 1971 [also in J. Robinson *Collected Economic Papers Volume IV* Oxford: Basil Blackwell 1973, pp. 114–21].
12. J. Robinson 'Kalecki and Keynes' in *Problems of Economic Dynamics and Planning, Essays in Honour of Michał Kalecki* Warszawa 1964 [and in *Collected Economic Papers Volume III* Oxford: Basil Blackwell 1965, pp. 92–9].
13. Ibid. p. 94.
14. Ibid. pp. 95–6.
15. A. Pański 'The economic theories of Marx in the perspective of time' ('*Teorie ekonomiczne Marksa w perspektywie czasu*') *Przegląd Socjologiczny* (Sociological

Review) 1937 t. V, pp. 730–91. In one of his notes, Pański remarked ‘Kalecki’s work has met with criticism in Poland from Marxists. The criticism has been to a great extent based on misunderstandings and, apart from this relating mainly to the external, mathematical form of the author’s exposition, a form that does not have any significance in his essential thinking. Curiously, the critics have completely overlooked the clear genetic link between the essence of Kalecki’s theory and the Marx’s schemes of reproduction.’ (note 5d on page 745). [Antoni Pański was a Polish philosopher and economist who edited the *Socialist Review* (*Przegląd Socjalistyczny* to which Kalecki contributed prolifically in 1932, before it was shut down by the Polish Government.)]

16. [See previous note.]

17. A first version of this work, entitled *Teoria ekonomiczne Róży Luksemburg* was the basis of a post-doctoral examination in the spring of 1964 in the Department of Political Economy at the University of Warsaw. The official examiners were Professors Oskar Lange and Jerzy Tepicht. Extracts from the work appeared in *Ekonomista* 1963, nr. 1 and 1969 nr. 1. And in the book J. Górski, T. Kowalik & W. Sierpiński *Historia powszechnej myśli ekonomicznej* [A History of Economic Thought] Warszawa 1967. The most important conclusions of this work are presented in English in ‘Rosa Luxemburg’s Theory of Accumulation and Imperialism’ in *Problems of Economic Dynamics and Planning, Essays in Honour of Michał Kalecki* [Warszawa: PWN-Polish Scientific Publishers 1964] and in the entry ‘Rosa Luxemburg’ in the *International Encyclopaedia of the Social Sciences* U.S.A. 1968 volume 9, pp. 496–8.

1 The Origin of the Problem: A General Outline of the Work

1. In Polish, this work was first published in 1957. Cf. Luxemburg, R. (1957) *Rozwój Przemysłu w Polsce*, Warsaw. In the Institute of Marx and Lenin (IML) there is a translation of this work completed already at the turn of the current century by Adolf Warski (information by Felix Tych in: *Letters of Rosa Luxemburg to Leon Jogiches-Tyszko*, vol. 2, Warsaw 1968, p. 388, note 7).
2. A quarter of a century later, she would write similarly about the beginning of capitalism in Russia in the 1870s and 1880s: ‘Big industry only now staged its real entry, fostered by the period of high protective tariffs. In particular, the introduction of a tariff on gold at the Western frontier in 1877 was a special landmark in the absolutist government’s new policy of forcing the growth of capitalism. “Primitive accumulation” of capital flourished splendidly in Russia, encouraged by all kinds of state subsidies, guarantees, premiums and government orders. It earned profits which would already seem legendary to the West.’ (Luxemburg, R. *The Accumulation of Capital*, London: Routledge Classics, 2003, p. 250).
3. Lenin, V.I. (1899) ‘The development of capitalism in Russia: The Process of the Formation of a Home Market for Large-Scale Industry’, in: *The Collected Works of Vladimir Lenin*, vol. 3, Moscow 1964, Progress Publishers, p. 25.
4. *Ibid.*, p. 25. A. Pashkov managed to interpret Lenin’s preface in an interesting way. Devoting a significant part of his book to a discussion of Lenin’s

work, he wrote: 'In the preface to the first edition of the book discussed, Lenin indicated the need to analyse and present *the whole process of the development of capitalism in Russia, to endeavour to depict it in its entirety*'. And further: '*to elucidate the problem of the home market for Russian capitalism it was absolutely necessary to show the connection between, and interdependence of, the various aspects of the process taking place in all spheres of the social economy*'. Hence, despite the fact that Lenin's objective was to analyse the issue for Russian capitalism of the formation of the domestic market, the character of this topic required him to analyse the specific process of the capitalist development in Russia in its entirety. Lenin's grand work [...] in its whole content responds directly to the task set by Lenin in the work *What the Friends of People are and how they fight the Social-Democrats*. The theoretical work of intelligentsia – wrote Lenin – *must be directed towards the concrete study of all forms of economic antagonism in Russia, the study of their connections and successive development; they must reveal this antagonism wherever it has been concealed by political history, by the peculiarities of legal systems or by established theoretical prejudice*'. Pashkov adds: 'It is impossible to characterise the keynote of the book and its significance more precisely and clearly than Lenin himself has done in the words quoted above' (Pashkov, A. (1961) *Prace ekonomiczne Lenina z lat dziewięćdziesiątych*, Warsaw, p. 382–3). Neither here nor anywhere else did Pashkov mention the limitations of the subject-matter imposed by Lenin. It is precisely this reason that allowed Lenin's analysis to be presented as a general and comprehensive theory.

5. '... when Poland regained her independence, there had already evolved a dual scholarly tradition of work on this period: that of apologists [...] of large-scale enterprise in agriculture, trade and industry, led by wealthy Polish bourgeoisie and landowners under the Russian rule, as against the Marxist line of thought, initiated by the works of Rosa Luxemburg and J. Marchlewski. The future belonged to the latter [...]' (Kula, W. (2001) *The problems and methods of economic history*, Aldershot: Ashgate).
6. Luxemburg, R. (1900) 'Social Reform or Revolution?'. In: Anderson, K.B. and Hudis, P. (eds) (2004) *The Rosa Luxemburg Reader*, New York: Monthly Review Press, p. 132.
7. Ibid.
8. Ibid.
9. The history of these fragments is as follows. After the publication of a series of articles by Rosa Luxemburg in the *Leipziger Volkszeitung*, later forming the first part of *Social Reform or Revolution*, Bernstein accused her of transforming Marx's theory of crisis into the 'music of the past'. While publishing the articles in the book (1900), Luxemburg remarked (in a footnote) that Bernstein's interpretation was 'completely unfounded', since she merely argued that 'regular, mechanical periodicity of crises, a 10-year crisis cycle to be more precise, constituted a formula suitable only to the developed world market. When it comes to the content of Marx's theory of crises, we claimed that it was merely a scientific depiction of both the mechanism and the internal economic causes of all the crises until that time'. However, in the second edition of the book (1908) her response was extended. She replaced all the aforementioned quotes with the statement: 'As soon as in 1898 Bernstein threw Marx's theory of crises into a lumber room, a violent,

economy-wide crisis erupted in 1900 and seven years later ... a new crisis coming from the United States. Thereby, blatant facts defeated the theory of the "adaptation" of capitalism. They simultaneously show that all those who rejected Marx's theory of crises only because it did not prove itself correct in the two alleged "instances" confused the core of this theory with an insignificant external detail of this form, namely the 10-year cycle. The formulation of a modern cycle as a 10-year period was for Marx and Engels in the 1860s and 1870s a mere statement of the facts, which ... were based not on some laws of nature, but on a number of historical conditions, remaining related to the leaps of extension of the young capitalism's activity' (Ibid.) It is sometimes argued – incorrectly, in our opinion – that the above editorial changes in the second edition of the pamphlet resulted only from 'new practical experiences, e.g. of economic crisis' (Cf. Editorial note to Luxemburg, R. *Gesammelte Werke*, reprinted in the Polish edition of the *Collected Works* R. Luxemburg, vol. 1, p. 141).

10. If we remove the question of crises, an approach advocated by Luxemburg herself, then her periodization at the end of the 1890s broadly overlaps with the widely accepted periodization of capitalism proposed by Lenin in *Imperialism, The Highest Stage of Capitalism* (1916). Lenin described the period up until the 1870s–1880s as the era of free competition. Furthermore, he interpreted the years from the 1873 crisis until the end of nineteenth century as the transition period characterized by formation and expansion of monopolies. The beginning of twentieth century was for Lenin a phase of advanced capitalism, marking its final stage and its fall.
11. Rosa Luxemburg, *Wstęp do ekonomii politycznej*, Warsaw 1958, p. 315 [Cf. Idem *What is Economics?* London: The Merlin Press, pp. 33–50]. The book was published by Paul Levi with his foreword as late as in 1925, entitled *Einfuehrung in die Nationaloekonomie*. Since then it has been repeatedly re-issued. The detailed history of the book is known from Luxemburg's letter to the publisher, sent on 28 July 1916 from the Berlin prison. The following is the full table of contents of the book: '1. Was ist Nationoekonomie?; 2. Die gesellschaftliche Arbeit; 3. Wirtschaftsgeschichtliches. Urkommunistische Gesellschaft; 4. Wirtschaftsgeschichtliches. Feudales Wirtschaftssystem; 5. Wirtschaftsgeschichtliches. Die mittelalterliche Stadt und das Zunft Handwerk; 6. Die Warenproduktion; 7. Lohnarbeit; 8. Der Kapitalprofit; 9. Die Krise; 10. Die Tendenzen der kapitalistischen Entwicklung'. In summer 1916 only two first chapters were ready to be published. The remainder chapters remained drafts ('In Brulion niedergeschrieben'). In Rosa Luxemburg's papers only chapters 1, 3, 6, 7 and 10 were found. The rest of the chapters seem to have perished. Hence, the readers only received half of the planned chapters (Cf. Paul Frölich, *Rosa Luxemburg, Gedanke und Tat*, Paris 1939, p. 151).
12. Ibid., p. 316.
13. Ibid., p. 315. In this light, Motylev's view expressed in the foreword to the 4th Russian edition of the *Accumulation of Capital* remains astonishing: 'Hence, remaining on the grounds of R. Luxemburg's theory, one cannot argue that the economic end of capitalism is very near – let alone that it has been already achieved. It is characteristic that Rosa Luxemburg herself admitted in another work – *Introduction to Political Economy*, written after the *Accumulation of Capital*. In the chapter entitled *Tendencies of a capitalist*

economy, she writes: (from here follow the statements with which the reader should be already familiar, namely that capitalism constitutes merely a small portion of the overall global production and that it could consequently experience mass expansion, provided it was successful in taking over the backward, non-capitalist forms of production – T.K.). Cf. R. Luxemburg, *Nakoplenye kapitala*, 4th Russian edition, Moscow 1931, p. 30. Furthermore, Motylev adds that ‘R. Luxemburg herself showed that the longevity of capitalism follows from her theory’ (ibid., p. 30). Motylev’s two theses evoke obvious objections. Firstly, there is no basis to treat the *Introduction to Political Economy* as a follow-up to the *Accumulation...*, as Motylev could have found out by reading the first page of Luxemburg’s work to which he had written the foreword. This most certainly applies to the last chapter of the *Introduction...*, which undoubtedly has the character of a draft. Secondly, in the fragment quoted by Motylev, Rosa Luxemburg expressed doubts whether it is correct to form predictions of the demise of capitalism based solely on its share in the global production. That was precisely the reason why she decided to research further on the subject.

14. Ibid., pp. 316–7.
15. In January 1912 Rosa Luxemburg decided to write the *Accumulation*. A year later, in January 1913, the thirty-page-long book was available in bookshops. In the same month first reviews appeared. This is a measure of an editorial and critical success! And it happened over hundred years ago.
16. Rosa Luxemburg’s letter to Diefenbach, written on 12 May/June 1917 in the Wronke prison. Quote in: Adler, G., Hudis, P. And Laschitz, A., (eds) (2011) *The Letters of Rosa Luxemburg*, London: Verso, p. 409.
17. Robinson, J. (1951) ‘Introduction’. In: Luxemburg, R. (2003) *The Accumulation of Capital*, London: Routledge Classics, p. xxxvii.
18. Cf. Works quoted above and Bukharin, N. *Der Imperialismus und die Akkumulation des Kapitals*, Vienna 1926; Sternberg, F. *Der Imperialismus*, Berlin 1926 and idem, *Der Imperialismus und seine Kritiker*, Berlin 1929; Grossmann, H. *The law of accumulation and breakdown of the capitalist system: being also a theory of crises*, London: Pluto 1992; Sweezy, P.M. *The theory of capitalist development*, New York 1942; Dobb, M. ‘The Accumulation of Capital’. In: Dobb, M. *On Economic Theory and Socialism: Collected Works*, London 1955.
19. Robinson, J. (1951) ‘Introduction’. In: Luxemburg, R. (2003) *The Accumulation of Capital*, London: Routledge Classics, p. xxxiii.

2 The Russian Dispute over Markets: From the Narodniks to Lenin

1. The original title. Extensive fragments can be found in: Walicki, A., (ed.) (1965) *Filozofia społeczna narodu rosyjskiego wybór pism*, Vol. 1 and 2, Warsaw: Książka i Wiedza, pp. 373–439.
2. Ibid. p. 391. Here it is worth adding that Vorontsov was one of the first writers in world literature and perhaps even in socialist literature, to recognize a method of value-added destruction – and hence of overproduction crises alleviation – in armaments production. (Cf. His article ‘Militarism and capitalism’, *Russkaya mysl*, vol. IX, 1889).

3. Filozofia społeczna narodnictwa rosyjskiego, vol. 2, p. 389.
4. Ibid., p. 392.
5. Ibid., p. 392.
6. Ibid., p. 400.
7. The author of an extensive study of Narodnik's social philosophy, published as an introduction to the volume cited here, rightly writes: 'Although Danielson considered himself to be a Marxist, he was by no means inclined to give up his own, long-established views of the [socio-]economic development of his country [Russia]; he did everything possible to convince Engels of the validity of his ideas but, having failed to achieve this, he stuck even more resolutely to his guns; he used to invoke the authority of Marx and Engels at every appropriate occasion, but wherever he polemized with them, he used to do it without reference to them, trying thus to pass for an orthodox Marxist'. (A. Walicki's introduction to *Filozofia społeczna narodnictwa rosyjskiego*, Vol. 1, Warsaw 1965, p. XCVIII). [Cf. Walicki, A. (1969) *The Controversy over Capitalism: Studies in the Social Philosophy of the Russian Populists*, Oxford: Clarendon Press, p. 125].
8. *Filozofia społeczna...*, vol. 2, p. 469.
9. Ibid., p. 471.
10. Ibid., pp. 471–2.
11. Ibid., p. 475.
12. Ibid., p. 476. Danielson inserts into his argument quotes from the letter of Engels from 18 June 1892. It is a good occasion to show how Danielson used the texts of Marx and Engels. Engels' opinion starts with a pronounced doubt: 'The problem is whether there is enough time for Russia for such a change of the public opinion, which would enable' (and further – Engels' words quoted by Danielson). This letter, as well as others even more polemical towards Danielson (from 22 September 1892) can be found in the annex to the work cited here [Cf. *The correspondence of Marx and Engels: Vol. 9 1845–1895*, London: Lawrence & Wishart]. Such incoherence and misunderstandings in interpreting Marx occurred often among the Narodniks. For instance, Plekhanov in the essay *The law of economic development of the society and the objectives of socialism in Russia*, written in 1879 and hence in the period when he was still one of the ideologues of the Narodnik movement, dealt in a very interesting way with a well-known historiosophic thesis contained in the preface to the first volume of *Capital*. Marx wrote: 'And even when a society has got upon the right track for the discovery of the natural laws of its movement – and it is the ultimate aim of this work, to lay bare the economic law of motion of modern society – it can neither clear by bold leaps, nor remove by legal enactments, the obstacles offered by the successive phases of its normal development' (*Capital*, Vol. 1, p. 7). Plekhanov interpreted this statement in a following way: 'The society cannot leap over the natural phases of its development when it has got upon the right track for the discovery of the natural laws governing its movement, says Marx. That means that until the society has not discovered these laws, the order of economic phases conditioned by these laws does not apply to it' (*Filozofia społeczna...*, vol. 2, s.333–4).
13. Luxemburg, R. *The Accumulation of Capital*, London: Routledge Classics, 2003, pp. 253–4.

14. The first attempt to break with this uniform interpretation of Tugan-Baranovsky's theory that I know of is Michał Kalecki's 1967 paper 'The problem of effective demand with Tugan-Baranovsky and Rosa Luxemburg' (available in Osiatyński, J., (ed.) (1991) *Collected Works of Michał Kalecki Volume II: Capitalism – Economic Dynamics*, Oxford: Clarendon Press).
15. Tugan-Baranovsky, M.I. (1923) *Pyeryodycheskiye promyshlennyye krizisy. Istoriya anglyyskikh krizisov. Obshchaya teoriya krizisov*, Smolensk, p. 212 (translation T.K.).
16. *Ibid.*, p. 213 (translation T.K.).
17. A different opinion was held by Kautsky, who together with Tugan saw the fundamental cause of business cycles in rapid development of the international railway system (Cf. Kautsky, K.(1902) 'Krisentheorien', *Neue Zeit*, 20:2, p. 137).
18. Tugan-Baranovsky, *op. cit.*, p. 273 (translation T.K.).
19. *Ibid.*, p. 227 (translation T.K.).
20. Kalecki, M. (1967) 'The problem of effective demand with Tugan-Baranovsky and Rosa Luxemburg'. In: Osiatyński, J., (ed.) (1991) *Collected Works of Michał Kalecki Volume II: Capitalism – Economic Dynamics*, Oxford:Clarendon Press, pp. 451–2.
21. Cf. Engels's account in the foreword to the second volume of *Capital* and his letter to W. Adler, quoted in: Rozenberg, D. (1958) *Komentarze do II tomu Kapitału Karola Marksa*, Warsaw, pp. 361–2. [Cf. *The correspondence of Marx and Engels: Vol. 9 1845–1895*, London: Lawrence & Wishart 1941].
22. *Capital*, Vol. 1, p. 412.
23. Lenin, *Collected Works*, Vol. 1, p. 87.
24. *Ibid.*, p. 100.
25. *Ibid.*, p. 93.
26. *Ibid.*, p. 93.
27. 'Readers who are unable to familiarize themselves with Volume II of *Capital* are recommended to read the exposition of Marx's theory of realization contained in Mr. S Bulgakov's book quoted above [*Markets under Capitalist Production*, 1897 – T.K.]. Mr. Bulgakov's exposition is more satisfactory than that of Mr. M. Tugan-Baranovsky (*Industrial Crises*, pp. 407–38), who in building up his schemes has made some very ill-judged departures from Marx and has inadequately explained Marx's theory' (Lenin, *Collected Works*, Vol. 3, p. 52f. Cf. Vol. 4, pp. 55–6).
28. Cf. Władysław Sadowski's paper 'Problemy reprodukcji w pracach Lenina', in: *Problemy teorii ekonomii politycznej w pracach Lenina*, Warsaw 1961, pp. 176–92.
29. 'Struve says that I ascribed to Marx the bourgeois-apologetic theory of Say-Ricardo, the theory of harmony between production and consumption' (Lenin, V.I. *Once more on the theory of realisation*, in: *Collected Works*, Vol. 4, p. 83).
30. It is interesting how Georgi Plekhanov evaluated this stage of the disputes with the Narodniks. In the preface to the second edition of his book *Our Differences*, he wrote: 'I would also like to remark that [...] I have never been a supporter of this theory of markets in general and of crises in particular, which spread in our legal Marxist literature like a plague in 1890s. According to this theory, whose main propagator has to be Mr Tugan-Baranovsky,

reproduction becomes unlimited [in the Polish edition it was wrongly written 'impossible' – T.K.] and crises are explained by a casual disproportion in the division of the means of production ... W. Sombart regards the prominent Russian scholar Tugan-Baranovski as the father of this allegedly new theory. The true father of this not at all new theory was Jean Baptiste Say, in whose exposition it is clearly portrayed. The circumstance which is extremely interesting is that in this sense bourgeois economics returns to the point of view of a vulgar economist, whom it tries to avoid mentioning, somehow complying with a praiseworthy sense of shame. Apart from Mr Tugan-Baranovski, the theory of J.-B. Say was propagated in here by Mr Vladimir Ilyin in the note on the issue of markets (*Nouchnoe obozreniye*, January 1899) and in the book *The Development of Capitalism in Russia*. In the latter work, Vladimir Ilyin reveals anyway serious objectivism, testifying to the fact that the theoretical conscience of a Marxist was not always muted in him.' (Plekhanov, G. (1884) 'Our Differences', in: Plekhanov, G. (1961) *Selected Philosophical Works Vol. I*, London: Lawrence & Wishart, p. 268).

31. Lenin, *Collected Works*, Vol. 4, p. 55.
32. *Ibid.*, p. 79. In another place Lenin similarly writes: 'Further, Marx's theory showed how the contradiction, inherent in capitalism, comes about, how the tremendous growth of production is definitely not accompanied by a corresponding growth in people's consumption ... It follows from the theory that, even with an ideally smooth and proportional reproduction and circulation of the aggregate social capital, the contradiction between the growth of production and the narrow limits of consumption is inevitable' (*Ibid.*, p. 87).
33. Kautsky, K. 'Krisentheorien', *Neue Zeit*, 20(2), p. 116. Quoted in: Luxemburg, R. *The Accumulation...*, pp. 298–9. R. Luxemburg informs that Boudin also 'holds that the law of a quicker growth in the means-of production department relative to the means-of-subsistence department is a delusion of Tugan Baranovski's' (p. 299, she refers to Boudin's paper 'Mathematische Formeln gegen Karl Marks', *Neue Zeit*, 25, 1).
34. Kautsky, K. 'Krisentheorien', *Neue Zeit*, 20(2), p. 80. Quoted in: Luxemburg, R. *The Accumulation...*, pp. 297f–298f. P.M. Sweezy regarded this article as the most important 'of all the attempts to revise, supplement, interpret and correct Marx' – the most relevant for the issue of crises and chronic depression. Meanwhile, he regarded Boudin's book as a more primitive exposition of the underconsumption theory. Cf. Sweezy, P.M. (1962), *The Theory of Capitalist Development*, 4th edition, London: Dobson Books Ltd., pp. 216, 201.

3 Aggregate Demand and the Accumulation of Capital

1. Dobb, M. (1955) *On Economic Theory and Socialism: Collected Papers*, London: Routledge and Kegan Paul, p. 266.
2. Sweezy, P.M. (1962), *The Theory of Capitalist Development*, 4th edition, London: Dobson Books Ltd, pp. 202–7.
3. This was accurately captured by Henryk Grossmann: 'Once these general tendencies have been established it is an easy task to explain the periodic deviation from the basic line of development, or the periodic crises. In this

sense the Marxist theory of accumulation and breakdown is at the same time theory of crises'. (Grossmann, H. (1992) *The law of accumulation and breakdown of the capitalist system: being also a theory of crises*. London: Pluto, p. 69).

4. Above, we quote as correct the opinion of H. Grossmann about the relationship between the general theory of accumulation and the business cycle theory. Nevertheless, it does not mean that the issue of business cycles can be ignored. Both in terms of the problem of value and prices as well as in terms of the question of accumulation and cycle Rosa Luxemburg was prepared to neglect what she described as forms (prices and crises). Furthermore, she put forward a simplified interpretation of the theory of Marx, who indeed argued that value is to price what content is to form; however, *Capital* lacks a developed theory of prices, since Marx did not finish his work. The issue of crises is similar. Hence, the discrepancy of views of Rosa Luxemburg and Grossmann needs to be clearly emphasized. Moreover, later in the development of economic theory it turned out that business cycle theory could be incorporated into a broader general theory of capitalist dynamics. Such development took place in Michał Kalecki's work.
5. Robinson, J. (1951) 'Introduction', in: Luxemburg, R. (2003), *The Accumulation of Capital*, London: Routledge Classics, p. xxi.
6. The full title of *Anti-Critique*, written during the war (1915) in prison and published after the author's death, is: 'The Accumulation of Capital, or What the Epigones Have Made of Marx's Theory'. In Polish, this work was published together with the main work of Rosa Luxemburg. [Luxemburg, R. (1973) *The Accumulation of Capital – an Anti-Critique*, New York: Monthly Review Press.]
7. Return to this topic in the Marxian literature becomes clear only in the second half of 1930s, that is after Keynes' book was published. The first symptom of this return was O. Bauer's book *Zwischen Zwei Weltkriegen?* (1936), in which he ascribed the question of under-consumption to the issue of crises. In relation to this, Paul M. Sweezy recognized that 'it is interesting to note that in none of his earlier writings did Bauer show any inclination to accept an under-consumption theory' (Sweezy, P.M. *Theory...*, p. 186). Furthermore, the following words, concluding the chapter on realization crises in Sweezy's book, are characteristic: 'It is to be hoped that the exposition of this chapter will serve to remove doubts and hesitations which have hitherto prevented many Marxist economists from accepting the theory of under-consumption as one aspect – and a very important aspect – of the whole crisis problem' (Ibid., p. 186). Here, Sweezy writes about the resistance against accepting the significance of insufficient global demand for explaining the causes of crises. At this point it needs to be added that resistance in acknowledging the importance of this issue for the analysis of long-term capitalist dynamics was even greater. In one form or another, they survived until this day.
8. Sweezy expressed the following view on Rosa Luxemburg's reproduction theory: 'Bukharin's witty remark is still the most telling criticism of her theoretical structure: "If one excludes expanded reproduction at the *beginning* of a logical proof", he wrote, "it is naturally easy to make it disappear at the end; it is simply a question of the simple reproduction of a simple logical error"' (Sweezy, P.M., op. cit, pp. 204–5). Bukharin's witty remark, which was

also quoted by Sweezy in the preface to the Italian edition of R. Luxemburg's work ('Introduzione', in: Luxemburg, Rosa (1960) *L'accumulazione del capitale*, Einaudi (series: 'Classici dell' Economia', p. XXVIII)), comes from N. Bukharin's work *Imperialism and the Accumulation of Capital*, New York: Monthly Review Press 1972, p. 166.

9. In another place, R. Luxemburg describes the peculiar nature of capitalist reproduction in the following way: 'Quite apart from all technical conditions, reproduction here depends on purely social considerations: only those goods are produced which can with certainty be expected to sell, and not merely to sell, but to sell at the customary profit. Thus profit becomes an end in itself, the decisive factor which determines not only production but also reproduction. Not only does it decide in each case what work is to be undertaken, how it is to be carried out, and how the products are to be distributed; what is more, profit decides, also, at the end of every working period, whether the labour process is to be resumed, and, if so, to what extent and in what direction it should be made to operate' (*Accumulation...*, p. 6 – T.K.). A little further, Rosa Luxemburg again emphasizes that in any other economic regime known from history, consumption needs of the society are the factor determining reproduction. The situation is drastically different under capitalism, where 'it is not consideration of social needs which actuates the individual private producer who alone matters in this connection' (*Ibid.*, p. 11).
10. The fundamental lines of division of this controversy were outlined by Michał Kalecki. Writing that Roy Harrod argued that the basic contradiction of capitalism led to cyclical fluctuations around a trend, Kalecki presented his own opinion: 'I believe that the antinomy of the capitalist economy is in fact more far reaching: the system cannot break *the impasse* of fluctuations around a static position unless economic growth is generated by the impact of *semi-exogenous* [italics added] factors such as the effect of innovations upon investment. It is only in such a case that cyclical fluctuations do occur around the ascending trend line.' (Kalecki, M. (1962) 'Observations of the Theory of Growth', *The Economic Journal*, 72(285), p. 134). In an earlier work, the same author wrote: 'Our analysis shows that long-run development is not inherent in the capitalist economy. Thus specific development factors are required to sustain a long-term upward movement' (Kalecki, M. (1954) 'Theory of Economic Dynamics', in: Osiatyński, J., (ed.) (1991) *Collected Works of Michał Kalecki: Vol. II Capitalism. Economic Dynamics*, Oxford: Clarendon Press, p. 337).
11. Nevertheless, this obscure and confusing form of expressing the new problems of accumulation allowed Rosa Luxemburg to notice the inadequacy of depicting crises exclusively as a disproportional phenomenon of partial over-production, which was traditional in the Marxist literature. 'Or does the freezing of one part of the surplus value in monetary form in the hands of certain capitalists mean that other capitalists will be left with a corresponding part of that surplus product in its material form? does the hoarding of realised surplus value by some imply that others are no longer able to realise their surplus value, since the capitalists are the only buyers of surplus value? This would mean, however, that the smooth course of reproduction and similarly of accumulation as described in the diagram would be interrupted.

- The result would be a crisis, due not to over-production but to a mere intention to accumulate, the kind of crisis envisaged by Sismondi' (pp. 321–2).
12. This example was preceded by the statement, that mathematical formulas of reproduction schemes were used by Marx only 'to help in explaining and clarifying' his economic thoughts. Whether the laws of global social capital accumulation fragmentarily outlined by him are correct or not 'can obviously be proved only by economic analysis, comparison with other laws set up by Marx, consideration of various consequences to which they lead, examination of the premises from which they proceed, and so on. But what is one to think of "Marxists" who reject any such criticism as lunacy, since the correctness of the laws is *proven by the mathematical models!*' ('Anti-Critique', p. 69 italics in the original).
 13. 'Capitalist methods of production do more than awaken in the capitalist this thirst for surplus value whereby he is impelled to ceaseless expansion of reproduction. Expansion becomes in truth a coercive law, an economic condition of existence for the individual capitalist ... A growing tendency towards reproduction at a progressively increasing scale thus ensues, which spreads automatically like a tidal wave over ever larger surfaces of reproduction' (Ibid., p. 12).
 14. Cf. Kalecki, M. (1939) 'Money and Real Wages'. In: Osiatyński, J. (ed.) (1991) *Collected Works of Michał Kalecki, Vol. II Capitalism. Economic Dynamics*. Oxford: Clarendon Press.
 15. 'The increase in capitalists' consumption', wrote Kalecki, 'exerts the same influence as that in the production of investment goods: the production of consumer goods for capitalists expands; this leads to an increase in employment and this raises again the demand for consumer goods for the workers, which causes a further rise in production'. Kalecki simultaneously emphasized the internal relationship between individual capital and global capital movement. Arguing that the above thesis (that growth of capitalist consumption increases their profits) contradicts the common conviction that consumption growth leads to a fall in savings, Kalecki continues: 'This approach which is correct with regard to a single capitalist, does not apply to the capitalist class as a whole. If some capitalists spend money, either on investment or consumer goods, their money passes to other capitalists in the form of profits. Investment or consumption of some capitalists creates profits for others' (Kalecki, M. (1933) 'Outline of a Theory of the Business Cycle'. In: *Studies in the Theory of Business Cycles 1933–1939*, Oxford: Basil Blackwell, pp. 13–14).
 16. Estey, J.A. (1947) *Business Cycles: Their Nature, Cause and Control*, New York: Prentice-Hall, p. 321, italics in the original.
 17. Cf. Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*, p. 370. Here, it is worth mentioning that in at least one aspect Hobson had an advantage over Luxemburg: he recognized that consumption (the size of monetary demand) defined production only in the conditions of under-employment of the factors of productions. Arguing that 'the chronic tendency of contemporary societies to under-employment is to be traced to under-consumption', he assumed the tendency present in advanced capitalist countries to under-utilised productive capacity (Cf. Nemmers, E.E (1956) *Hobson and Underconsumption*, Amsterdam: North-Holland Publishing Company, p. 29, footnote 17; and Keynes, J.M. *General Theory...*, p. 324).

18. In response to the statement of her critics that 'profit is accumulated', R. Luxemburg wrote: 'And how do you know that, oh experts? Now, it is shown ... in the mathematical models that profit is in fact accumulated. In those models ... in which money capital is entirely neglected' (*Anti-Critique*, p. 74). To be precise, it needs to be emphasized that a more direct distinction between savings and investment is found not in her main work, but in *Anti-Critique*.

4 The Unsuccessful Attempt to Complete Marx's Scheme of Reproduction

1. This still concerns the so-called second enlarged reproduction scheme of Marx (*Capital*, Vol. 2, Moscow: Progress Publishers, p. 493).
2. Bauer, O. 'Die Akkumulation des Kapitals', *Neue Zeit*, 20(1), pp. 836 and 863. Bauer's papers were repeatedly reprinted in the Soviet editions of R. Luxemburg's work. Cf. e.g.: Luxemburg, R. (1934) *Nakoplenye kapitala*, Vol. 1 and 2, Moscow-Leningrad, pp. 339–58. Bauer's scheme itself can be found in H. Grossmann's book *The law of accumulation and breakdown of the capitalist system: being also a theory of crises*, London: Pluto 1992, p. 106, as well as in H. Trottman's book *Zur Interpretation und Kritik der Zusammenbruchstheorie von Henryk Grossmann*, Zurich 1956.
3. Lange, O. (1969) *Theory of reproduction and accumulation*, Oxford: Pergamon Press, pp. 32–3.
4. The view of non-transferability of accumulation and the resulting difficulties of accumulation in the conditions of pure capitalism became the theoretical foundation of F. Sternberg's book *Der Imperialismus*, Berlin 1926.
5. In reference to this, Oskar Lange's assessment of the discussion which took place around the Marxian schemes is interesting. 'In this study [*On the So-called Market Problem* – T.K.] Lenin used Marx's schemes of reproduction in the analysis of the problem of accumulation and of development of the economy. A little later ... Toukhan-Baranovsky, tried to prove, on the basis of Marxian schemes, that capitalism ... has unlimited possibilities of development. The discussion around these views and on the importance of Marxian schemes of expanded reproduction in asserting the prospects of development of the capitalist system of production lasted 30 years. It has not led to any conclusions because, as it turned out, the schemes of production equilibrium do not suffice for solving the problem which was the subject of this discussion' (O. Lange, *Theory of reproduction and accumulation*, p. 43).
6. Cf. *Ibid.*, p. 27.
7. This was done earlier by Vladimir Lenin in his youthful work *On the so-called market question*, written as early as in 1893, but published only 44 years later.
8. Cf. The following works of Kalecki: *Essays in the Theory of Economic Fluctuations*, London 1939; 'Money and Real Wages', 1939, in: Osiatyński, J. (ed.) (1991) *Collected Works of Michał Kalecki, Vol. II Capitalism. Economic Dynamics*. Oxford: Clarendon Press; *Theory of economic dynamics*, London: Allen & Unwin 1954.
9. Cf. Kalecki, M. (1968) 'The Marxian equations of reproduction and modern economics', *Social Science Information*, 7: 73–9.

10. Kalecki wrote: 'The production of department I and department II will also determine the production of department III if the distribution between profits and wages in all departments is given. The production of department III will be pushed up to the point where profits earned out of that production will be equal to the wages of departments I and II. Or, to put it differently, employment and production of department III will be pushed up to the point where the surplus of this production over what the workers of this department buy with their wages is equal to the wages of departments I and II' (*Theory of economic dynamics*, p. 47).
11. Kalecki presented the essence of his theory in the paper: 'The difference between crucial economic problems of developed and underdeveloped non-socialist economies'. In: Osiatyński, J. (ed.) (1993) *Collected Works of Michał Kalecki: Vol. V Developing Economies*, Oxford: Clarendon Press.
12. On the extended balance sheet of gross social product, Kalecki enumerates the following components on the right-hand side: gross investment, export surplus, budget deficit, capitalists' consumption. An increase in any of these components would (in the conditions of under-utilized productive capacity) translate into growth of employment, profits and production. Cf. M. Kalecki, *Theory of economic dynamics*, pp. 48–69.
13. Let us refer to the three-tier 'economic table' cited above, in order to highlight the difference in the outcome of investment expenditure under the conditions of full productive capacity utilisation. If, for example, in department 3 productive capacity is fully utilized, growing demand for workers' consumption goods, resulting from a rise in employment in the investment goods production, will increase their consumption goods prices. This will be equivalent to a fall in real wages as growing employment will not be followed by rising supply of consumption goods. However, capitalist profits (in department 3) will also increase in this case (to the level of the sum of wages in the first two departments).
14. The rate of interest on the one hand and the rate of profit on the other constitute only a general framework for making capitalist investment decisions. We cannot explore the assumptions of Kalecki's theory in more detail. Two points may be emphasized: a) in Kalecki's view, the rate of interest plays a minor role in the mechanism of capitalist dynamics; b) Kalecki repeatedly emphasized that the theory of investment decisions of capitalist entrepreneurs is one of the least developed aspects of the theory of capitalism, and his works in this matter are only introductory.
15. At this point we can return to the opinion of Oskar Lange quoted at the end of the previous chapter, stating that reproduction schemes are not sufficient to solve the object of the 30-year long dispute. Lange formulated this opinion in 1960 (in print in 1961). After the first draft of this work was written and as a result of its discussion, Lange specified his point of view. In the review of this work, he wrote that 'the realisation problem is essentially related to the role of the circulation of money, as well as of accumulation and expenditure of money reserves ... without this, one cannot truly understand the problem of realisation, which is a problem of the confrontation of the equilibrium conditions of reproduction with the market processes. The impossibility of realisation is precisely the lack of coordination between the requirements of reproduction and the market mechanism' (O. Lange, 'Opinia o pracy dr.

Tadeusza Kowalika pt. *Teoria ekonomiczna Róży Luksemburg*). Lange himself took up this issue in his work *Price Flexibility and Employment*, Bloomington 1944. Using the Walrasian concept of general equilibrium, but with the inclusion of money following Hicks, in the matter of dynamic equilibrium of the capitalist economy he reached similar conclusions to Kalecki, who used (modified) Marx's reproduction schemes.

5 The Misunderstanding around the Role of Money in the Process of Capital Accumulation

1. This was done by Henryk Grossmann in the essay 'Die Goldproduktion in Reproduktionsschemen von Karl Marx und Rosa Luxemburg', in: *Festschrift für Carl Grünberg zum 70. Geburtstag*, Leipzig 1932.
2. Sweezy, P.M. (1962), *The Theory of Capitalist Development*, 4th edition, London: Dobson Books Ltd, footnote, p. 204, italics in the original.
3. Bukharin, N. (1972) *Imperialism and the accumulation of capital*, New York: Monthly Review Press, p. 179, italics in the original.
4. K. Marx, *Capital*, Vol. 2, op. cit., p. 58.
5. Ibid., p. 62.
6. K. Marx, *Capital*, Vol. 2, Engels's preface, p. 4.
7. Letter of Engels to Victor Adler, London 16 March 1895, in: *The Correspondence of Marx and Engels 1846–1895*, London: Lawrence & Wishart, p. 532. [Cf. D. Rozenberg, *Komentarze do II tomu 'Kapitału' Karola Marksa*, Warsaw 1958, pp. 361–2].
8. D. Rozenberg, *Komentarze do II tomu 'Kapitału' Karola Marksa*, Warsaw 1958, p. 363.
9. Ibid., p. 362. We omit a rather inconsistent expression 'in principle (but) completely'.
10. K. Marx, *Capital*, Vol. 2, Engels' preface, p. 5.
11. Ibid., p. 4.

Appendix I

1. K. Marx, *Capital*, Vol. 2, Moscow: Progress Publishers, p. 357.
2. Ibid., p. 363. In *Theories of Surplus Value* Marx gave the following assessment of Quesnay's *Table*: 'it was an attempt to portray the whole production process of capital as a *process of reproduction*, with circulation merely as the form of this reproductive process; and the circulation of money only as a phase in the circulation of capital; at the same time to include in this reproductive process the origin of revenue, the exchange between capital and revenue, the relation between reproductive consumption and final consumption; and to include in the circulation of capital the circulation between consumers and producers (in fact between capital and revenue); and finally to present the circulation between the two great divisions of productive labour – raw material production and manufacture – as phases of this reproductive process; and all this depicted in a *Tableau* which in fact consists of no more than five lines which link together six points of departure or return – [and this

was] in the second third of the eighteenth century, the period when political economy was in its infancy – this was an extremely brilliant conception, incontestably the most brilliant for which political economy had up to then been responsible' (Marx, K. (1969) *Theories of Surplus Value*, London: Lawrence & Wishart, pp. 343–4).

3. Elsewhere, she evaluated the analysis contained in the second volume of *Capital* even less optimistically. Characterizing this part of Marx's work, she wrote: 'and then the permanent circulation of production and consumption in society as a whole must be kept in movement in the confusion of individual capitals, and this must be done in such a fashion that the necessary conditions of capitalist production are assured: the production of the means of production, the maintenance of the working class and the progressive enrichment of the capitalist class, i.e. the increasing accumulation and activity of all the capital of society. The second volume of *Capital* investigates how a whole is developed from the innumerable deviating movements of individual capital, how this movement of the whole vacillates between the surplus of the boom years and the collapse of the crisis years ... and how out of all this there develops in even more powerful dimension that which is only a means for present-day society, its own maintenance and economic progress, and that which is its end, the progressive accumulation of capital. Marx offers us no final solution, but for the first time in a hundred years, since Adam Smith, the whole is presented on the firm foundations of definite laws' (Mehring, F. (1966) *Karl Marx, The Story of His Life*, London: George Allen & Unwin, p. 375). This book was published in Polish with major abridgements, which aimed to eliminate 'errors'. Furthermore, it did not contain Mehring's preface, since it went against the doctrine and the dogmas of those times. It was subsequently replaced with a foreword by Roman Werfel. In this way Mehring's information that Rosa Luxemburg's 'gem of writing' was set into his book, that the fragment of his book about the second and third volume of *Capital* was indeed written by her, disappeared.
4. Kautsky, K. (1988) *The Materialist Conception of History*, London: Yale University Press, pp. 197–8. However, it does not prevent Kautsky from negatively assessing the attempt at the theory of accumulation undertaken by Rosa Luxemburg and from positively evaluating her previous work. He described *Introduction to Political Economy* as an excellent book, adding that 'the success of this book would be to her satisfaction after the disapproval encountered by her *Accumulation*, whose assumptions were misspecified despite certain correct details' (ibid., p. 421).
5. Ibid., p. 198.
6. Ibid., pp. 198–9.
7. It is worth remarking that Karl Kautsky abused these correct methodological arguments, developing a technical-reproduction concept of crises and realization under capitalism in a few works. Cf. K. Kautsky, *Vermehrung und Entwicklung in Natur und Gesellschaft*, 3rd edition, Stuttgart-Berlin, 1921.
8. Grossmann, H. (1992) *The law of accumulation and breakdown of the capitalist system: being also a theory of crises*, London: Pluto, p. 30. Cf. Also p. 131.
9. F. Behrens, *Zur Methode der politischen Oekonomie*, Berlin 1952, pp. 46–7. Quoted in: Lange, O. (1963), *Political Economy: Vol. I General Problems*, London: Pergamon Press, p. 118, footnote 35.

10. O. Lange, *Political Economy*, Vol. 1, p. 118, footnote 35.
11. Ibid., p. 118, footnote 35.
12. Ibid., p. xi.
13. Grossmann claimed, as known, that even his mechanistic theory of capitalist crash (*The law of accumulation and breakdown*) is merely an adequate reconstruction of Marx's views presented in *Capital*.
14. Joseph Stalin rightly drew attention to this issue, writing: 'As to Marx, he, as we know, did not like to digress from his investigation of the laws of capitalist production, and did not, in his *Capital*, discuss the applicability of his schemes of reproduction to socialism' (Stalin, J. (1972) *Economic Problems of Socialism in the U.S.S.R.*, Peking: Foreign Languages Press, p. 83). Further, Stalin weakened the assessment contained in the second half of the sentence by quoting certain remarks incidentally mentioned by Marx in the second volume of *Capital*.
15. Engels, F. (1954) *Anti-Dühring: Herr Eugen Dühring's revolution in science*, Moscow: Foreign Language Publishing House, p. 167. Witold Kula adds the following comment to this sentence: 'one might ask whether this statement does not contradict the very basis of Marx and Engels' work. Their theory entails, in point of fact, a number of fundamental propositions which refer both to the economy of Patagonia and to that of mid-nineteenth century England – propositions which, however, never were commonplaces, either for the authors themselves or for contemporary scholars ... On the other hand, the quotation from Engels would be consistent with the content of the works of the founders of scientific socialism if one were to assume that all those propositions mentioned do not pertain to political economy, but rather to the corresponding division of philosophy (historical materialism). In this case, political economy, strictly speaking, would encompass only propositions whose validity do not extend beyond a single socio-economic system at the most. This would require, however, an unusual interpretation of the sphere of competence of philosophy, as well as of the relationship between the individual science (in this instance, political economy) and philosophy' (Kula, W. (1976) *An economic theory of the feudal system: towards a model of the Polish economy, 1500–1800*, London: NLB, pp. 11–12. Cf. Further arguments of the author on the topic [note 33]).
16. This commentary to the first, second and third volume of Karl Marx's *Capital* (in four parts) were published in Polish in the years 1957–1958.
17. W. Brus, 'Niektóre zagadnienia metody dialektycznej w świetle *Kapitału* Marksa', paper for IKKN of KC PZPR symposium, Warsaw 1951, pp. 20–1.
18. Ibid.
19. P.M. Sweezy, *Theory of capitalist development*, p. 19.
20. O. Lange, *Political Economy*, Vol. 1, p. 118, footnote 35.
21. D. Rozenberg, 'Komentarze do I tomu *'Kapitału'* Karola Marksa, Warsaw 1967, p. 35.
22. Ibid., p. 29.
23. Cf. Ibid., p. 14 and the following.
24. Ibid., pp. 28–9.
25. Quoted in *Leninskiy sbornik*, Vol. 11, p. 349. 211 Ibid., p. 349.
26. Ibid., p. 349.
27. V. Lenin, *Collected Works*, Vol. 33, p. 58. Significantly more cautious interpretation of Lenin's statement on inter-sectoral proportions is given by

- G. Temkin, who wrote: 'referring to Marxian reproduction schema, [Lenin] probably wants to emphasise that ... economic problems will remain, that the communist society will also need to consider certain economic necessities, certain principles arising if not from production relations, then due to the level of development of productive forces' (G. Temkin, *Karola Marksa obraz gospodarki komunistycznej*, Warsaw 1962, pp. 244–5). I wrote about this in detail in the article: 'Z prehistorii ekonomii politycznej socjalizmu', *Ekonomista*, 1963, 4.
28. *Nieznane listy, notatki, przemówienia Lenina 1917–1922*, Warsaw 1963, p. 229. The quoted outline was only published a few years ago.
 29. V. Lenin, *Collected Works*, Vol. 33, p. 31. Cf. Also pp. 32, 36, 39.
 30. G.A. Feldman, 'K teorii tempov narodnovo dokhoda', *Planovoe khoziaystvo*, 1928, 11.
 31. Cf. Domar, E.D. (1957) *Essays in the Theory of Economic Growth*, Oxford: Oxford University Press.
 32. J. Stalin, *Economic Problems of Socialism in the U.S.S.R.*, pp. 82–3.
 33. W. Kula wrote in his aforementioned book: 'An extreme interpretation of the proposition on the variability of economic laws *pari passu* with changes in the socio-economic system had, as is well known, a quite precise and very important ideological function during the Stalin era. It made it possible to apply the most general economic laws – even those whose applicability is extremely broad, and which are consistent with Marxism – to the analysis of Soviet society. This is why I believe one should ascribe great scientific and social importance to the statement that Marxism – despite the citation from Engels – entails a good number of important propositions which, without at all being commonplace, are universally applicable to man's economic activity. These propositions are of importance whether we place them in the field of political economy or of philosophy (Kula, W. (1976) *An economic theory of the feudal system: towards a model of the Polish economy, 1500–1800*, London: NLB, p. 12).
 34. Cf. e.g. Lange, O. (1978) *Introduction to Econometrics*, Oxford: Pergamon; Sulmicki, P. (1959) *Przeptywy międzygałęziowe*, Warsaw: Polskie Wydawnictwa Gospodarcze; idem (1962) *Proporcje gospodarcze*, Warsaw: PWN; Bettelheim, C. (1961) *Some basic planning problems*, London: Asia Publishing House; Łaski, K. (1967) *Zarys teorii reprodukcji gospodarki socjalistycznej*, Warsaw: Książka i Wiedza.
 35. Lange, O. (1969) *Theory of reproduction and accumulation*, Oxford: Pergamon Press.
 36. Cf. Zagórski, J. (1963) *Ekonomia Franciszka Quesneya*, Warsaw.
 37. In the works preceding *Accumulation*, R. Luxemburg did not even once draw attention to Marx's reproduction schemes. Furthermore, we find no trace of influence of this construct on her method of exposition in the chapters of *Introduction*.
 38. Nevertheless, the merit of formulating this law for the socialist economy, which was raised to the role of a dogma, was persistently attributed to Lenin. For example, A. Pashkov wrote: 'The idea that the law of faster growth of production of the means of production maintains its power after the collapse of capitalism was expressed by Lenin [also] in his famous remark written in the margin of Bukharin's book, where Lenin wrote that the proportion of enlarged capitalist reproduction revealed by Marx $(v + m)I > cI$ holds also in the communist society' (A. Pashkov, *Prace ekonomiczne Lenina z lat dziewięćdziesiątych*,

Warsaw 1961, p. 168). Pashkov then continues: 'Finally, it is necessary to recall Lenin's equally direct statement that in the socialist system, the means of production should grow faster than the means of consumption. In ... the remarks on Rosa Luxemburg's book, Lenin wrote ... "In the conditions of socialism] *Pr(o)duk(tions)m(ittel): K(o)ns(umations)m(ittel)* grow [must] even faster", that is, in the conditions of socialism the means of production should grow even faster relative to the means of consumption. The above statement of Lenin can be of course regarded as a simple summary of the relevant text of Rosa Luxemburg; however, even under such interpretation of the meaning of Lenin's notes it is extremely significant that Lenin neither criticises nor doubts her ...' (ibid., p. 168). However, this requires certain explanation or even clarification. Luxemburg criticized Lenin and others for regarding the law of faster growth in department I as a law specific to capitalism and drawing far-reaching conclusions from this fact. On the other hand, she argued that this was a general law of production, relevant also to socialism. Next to R.L.'s sentence arguing that growth of the organic composition of capital is merely a capitalist expression of the general effects of growing labour productivity, she stated that 'the formula c greater than v ($c > v$), translated from the language of capitalism into that of the social labour process, means only that the higher the productivity of human labour, the shorter the time needed to change a given quantity of means of production into finished products'. Lenin summarized his attitude to this thesis of R. Luxemburg in one, strong word: 'Vot vzdor-to' [what nonsense]. In Lenin's notes reprinted in this volume of *Leninskiy sbornik*, this word appears only a few lines (6) above Lenin's words cited by Pashkov (Cf. *Leninskiy sbornik*, Vol. 21, p. 344). Thus, R. Luxemburg's whole argument on this point was described by Lenin as nonsense. Nevertheless, it does not prevent Pashkov from drawing the following conclusion: 'Bourgeois economists do not accept the law of faster growth of production of the means of production ... Negating the law of higher growth of production of the means of production is ... an ideological weapon in the battle against socialist industrialisation of people's republics ... The Polish economist B. Minc ... negates the functioning of this law in both capitalist and socialist conditions. Negation [of this law] ... is based on a vulgar distortion of Lenin's theses concerning this issue' (pp. 168–9). At this point in it is worth mentioning that the first argument in Lenin's notes in the margin of Bukharin's book plays a different role elsewhere in Pashkov's book. On page 325, having said that R. Luxemburg took 'the stand of bourgeois economists, negating the mere possibility of the existence of political economy in these societies, in which there is no commodity production ...', we read, 'The Leninist view on this issue was drastically different ... In his remarks on Bukharin's book ... he wrote that Bukharin's statement that the collapse of capitalism would be followed by the collapse of political economy is false. At this instance, he indicated that the objective laws would remain in communism, e.g. the need for certain proportion between $(v + m)$ and Ilc of social production' (*Leninskiy sbornik*, Moscow MCMXXIX, Vol. 11, p. 349). Hence, in this instance the issue is no longer about the more rapid growth of department I, but about certain proportions, which in turn corresponds precisely to Lenin's text.

39. I deal with this issue in a more extensive manner in the article 'O preistorii ekonomii politycznej socjalizmu', *Ekonomista*, 1963, no.4.

Appendix II

1. N. Bukharin's book *Imperialism and the Accumulation of Capital*, New York 1973, devoted entirely to the criticism of R. Luxemburg work, does not constitute an exception in this matter.
2. O. Bauer, 'Die Akkumulation des Kapitals', *Neue Zeit*, XXXI, vol. 1, no. 24 and 25.
3. Cf. J. Wątecki, *Sztuczne place źródłem bezrobocia*, Cracow 1938.
4. O. Bauer, *Die Kapitalismus und Sozialismus nach dem Weltkriege*, Vienna 1931.
5. O. Bauer, *Zwischen zwei Weltkriegen?*, Bratislava 1936. Bauer's model was repeated in a slightly different form by P. Sweezy in *Theory of capitalist development*, London 1962.
6. F. Sternberg, *Der Imperialismus und seine Kritiker*, Berlin 1929.
7. Born in Cracow, where he studied and became involved in the socialist workers' movement. He was the editor of the journal of Związek Młodzieży Socjalistycznej [the Union of Socialist Youth] *Zjednoczenie* [Union] which, under the influence of the Social Democracy of the Kingdom of Poland and Lithuania in 1905 stood against the idea of independence advocated in the manifesto of the Polish Socialist Party. During the 1905 revolution, he went to Russia to participate in it. Between 1908 and 1918, he was in Vienna. There, he worked with the well-known economic historian of the socialist movement, Karl Grunberg. In the last years of the war he worked alongside Othmar Spann, Otto Neurath and Ludwig von Mises in the committee of research on the war economy. From 1918 to 1925 he lived in Warsaw and worked in the Central Statistical Office. In 1922, he became a professor of economic policy at the Free Polish University. A member of the Polish Communist Party, he was arrested in 1924 for providing a venue to be used by the Party. Released on bail, he fled to Germany. In the years 1925 to 1933, he worked in the Institute for Social Research in Frankfurt led by K. Grunberg, where many Marxists worked. There, he became a university professor. In the fear of fascist repression, he fled to France, then to England and finally to USA. He only returned to Europe in 1949, working in the faculty and management at the University of Leipzig, where he died in 1950.
8. Cf. Kula, W. (2001) *The problems and methods of economic history*, Aldershot: Ashgate. Grossmann was one of the first Marxist economic historians in Poland. In the Vienna period, he published (in Polish and German) an extensive study *Polityka przemysłowa i handlowa rządu Terezańsko-Józefińskiego w Galicji (1772–1790)* [Industrial and Trade Policy in Galicia 1772–1790]. In 1925 in Warsaw, he published *Struktura społeczna i gospodarcza Księstwa Warszawskiego* [The Economic and Social Structure of the Duchy of Warsaw]. One year earlier, his booklet on Sismondi appeared. In the American period, he worked on the problems of economic history, economic and even philosophical thought. Some of his work is being brought up to date. His extensive archive was deposited in the Polish Academy of Sciences.
9. Grossmann, H. (1992) *The law of accumulation and breakdown of the capitalist system: being also a theory of crises*, London: Pluto [is an edited version published in English after Tadeusz Kowalik's book was written].

6 The Historic Conditions of Capital Accumulation

1. P.M. Sweezy wrote: 'Rosa Luxemburg's theory is open to criticism from several different angles; one error in particular, however, overshadows the rest: in discussing expanded reproduction she implicitly retains the assumptions of simple reproduction. The dogma, which she never questions for a moment, that the consumption of workers can realize no surplus value implies that the total amount of variable capital, and hence also the consumption of workers, must always remain fixed and constant as in simple reproduction. Actually accumulation typically involves adding to variable capital, and when this additional variable capital is spent by workers it realizes a part of the surplus value which has the physical form of consumption goods. Since Rosa Luxemburg did not understand this, it seemed to her that consumption could not increase within the framework of capitalism ... Since, however, the constancy of consumption rests on nothing more substantial than Rosa Luxemburg's own logical inflexibility, the whole theory collapses like a house of cards. Bukharin's witty remark is still the most telling criticism of her theoretical structure: "If one excludes expanded reproduction at the *beginning* of a logical proof", he wrote, "it is naturally easy to make it disappear at the end; it is simply a question of the simple reproduction of a simple logical error"' (Sweezy, P.M. (1962) *The Theory of Capitalist Development*, 4th edition, London: Dobson Books Ltd, pp. 204–5). The same argumentation, along with Bukharin's witty remark, is repeated by Sweezy in the foreword to a recent Italian edition of R. Luxemburg's work (Sweezy, P.M. (1960) 'Introduzione', in: Luxemburg, Rosa (1960) *L'accumulazione del capitale*, Turin, p. XXVIII), as well as in his recent article (Sweezy, P.M. (1967) 'Rosa Luxemburg's The Accumulation of Capital', *Science and Society*, 31(4), p. 482). It was precisely this criticism which Joan Robinson had in mind when she wrote that Rosa Luxemburg's theory was often depicted as 'irredeemable nonsense' (Robinson, J. (1951) 'Introduction'. In: Luxemburg, R. (2003) *The Accumulation of Capital*, London: Routledge Classics, p. xxix).
2. For example, Michał Kalecki wrote: 'Capturing of new foreign markets is frequently mentioned as a way out of depression. But it is usually not added that what is essential in this context is an increase in the export surplus rather than in absolute export' (Kalecki M. (1969) 'On Foreign Trade and "Domestic Exports"'. In: *Studies in the Theory of Business Cycles 1933–1939*, Basil Blackwell, p. 16).
3. R. Luxemburg refers to Engels's letter to Danielson from 18 June 1892. This letter can be found in *Filozofia społeczna narodu rosyjskiego*, Vol. 2, Warsaw 1965, pp. 764–71.

7 Militarism and Economic Growth

1. V.V.[orontsov], 'Militarism and capitalism', *Russkaya mysl*, vol. IX, August 1889.
2. M. Schippel, 'Friedrich Engels und das Militzsystem', *Neue Zeit*, XVII (1).
3. See M. Kalecki 'Essay on the Business Cycle Theory' reprinted in J. Osiatyński (ed.) *Collected Works of Michał Kalecki, Volume I Capitalism, Business Cycles and Full Employment*, Oxford, Clarendon Press 1990.

4. The following is Rosa Luxemburg's quantitative argument:

1. The basis of her argument is the following Marxian scheme of enlarged reproduction:

$$\begin{array}{l} \text{I } 5,000c + 1,000v + 1,000s = 7,000 \text{ means of production} \\ \text{II } 1,430c + 285v + 285s = 2,000 \text{ means of subsistence} \\ \hline 6,430c + 1,285v + 1,285s = 9,000 \text{ aggregate product} \end{array}$$

2. Additional procedures of the state (indirect taxation) lead to a rise in prices of the consumption goods, and thus to a reduction in the real wages by 100 units. Consequently, for the amount of $1,285v$ workers obtain products worth 1,185.
3. The difference, i.e. 100 units of value, is spent on the production of the weapons of war. The composition of this new sector is as follows:

$$71.5c + 14.25v + 14.25s = 100 \text{ weapons of war}$$

4. The consequence of these changes in the first phase will be a corresponding reduction in c , v and s in department II, and then a decrease in the size of production of the means of production, which are used to produce the means of subsistence for the workers. If 100 units extracted in the meantime by the state are set aside, the remaining aggregate product can be depicted in the following way:

$$\begin{array}{l} \text{I } 4,949c + 989.75v + 989.75s = 6,928.5 \\ \text{II } 1,358.5c + 270.75v + 270.75s = 1,900 \\ \hline 6,307.5c + 1,260.5v + 1,260.5s = 8,828.5 \end{array}$$

5. Decreased aggregate product is, according to R. Luxemburg, merely an outcome of the fact that less means of consumption and means of production, required to maintain workers' consumption are produced. Hence, R. Luxemburg subtracts the resulting reduction in the aggregate product ($9,000 - 8,828.5 = 171.5$) only from the expenditure on maintain workers. Correspondingly, this changes the composition of the aggregate product:

$$6,430c + 1,113.5v + 1,285s = 8,828.5$$

6. If the rather unconvincing and random shifts in the magnitudes of constant and variable capital are left without further analysis, then there is only one outcome of the argument presented above – production of an undiminished amount of the surplus value with decreased aggregate production. Consequently, the same magnitude of the surplus value is obtained at a lower cost of its production. Here, it is worth noticing that even if the general value of the new purchasing power of the state, or of the new production sector ($8,828.5 + 100$), is included into this amount of the aggregate product, we nevertheless obtain a lower aggregate product overall than at the starting point. However, R. Luxemburg does not consider this point. Did she assume that opening of the new

grounds of accumulation would stimulate the whole economy in such a way that this deficit would be effectively compensated for with the surplus? Or maybe this role is played by the tax screw directed towards the non-capitalist environment (peasants), from whom the state extracts 150 units in her example? Unfortunately, we do not obtain answers to these questions.

8 Imperialism and the Process of Capitalist Decline

1. We would like to highlight the similarity of the following argument with M. Szlezinger's argumentation in the article 'Podstawy filozoficzne doktryny społecznej Róży Luksemburg', *Studia Socjologiczno-Polityczne*, 1963, nr.15, pp. 59–134.
2. Bauer, O. (1913) 'Die Akkumulation des Kapitals', *Neue Zeit*. Quoted in: R. Luxemburg, *The Accumulation of Capital – An Anti-Critique*, p. 149.
3. Roman Werfel, 'Róża Luksemburg. Na marginesie pierwszego polskiego wydania *Pism wybranych*'. In: R. Luxemburg, *Wybór Pism*, vol. 1, Warsaw 1959, p. XLIX. Recently, the accusations against the theory of an automatic breakdown of capitalism have been repeated by Janina Wojnar-Sujecka, 'Świadomość społeczna a proces historyczny w piśarstwie Róży Luksemburg', *Studia Filozoficzne*, 1970, nr. 3, pp. 3–12.
4. R. Werfel, op.cit., p. XLIX.
5. Jerzy Ryng, *Wybór pism*, Warsaw 1955, pp. 406–7 (Cf. R. Luxemburg, *Anti-Critique*, p. 76).
6. Ibid., p. 408; italics as well as the comment in the brackets with the exclamation mark in the original.
7. Ibid., p. 409.
8. At this point, it is worth mentioning the following, very reasonable opinion of P.M. Sweezy: 'Neither Rosa Luxemburg nor Grossmann, the most extreme breakdown theorists, ever believed that the development of capitalism would proceed to what they regarded as its logical conclusion. As Rosa Luxemburg expressed it, class struggles and international wars must lead to revolution *long before the ultimate consequence of economic development is reached*. Once this is granted, the conclusion can hardly be avoided that it is the direction of development and not the "ultimate consequence" which is of primary importance; the breakdown problem appears as an essentially extraneous issue which has received an undue amount of attention. It is probably safe to assume that this is the reason why Marx did not concern himself with capitalist breakdown; he preferred to analyse the actual trends of capitalist development rather than to spin theories about a hypothetical outcome which would in any case never be reached. The incompleteness of his work is not to be found – as Rosa Luxemburg thought – in the absence of a breakdown theory, but rather in the unfinished analysis of capitalist tendencies' (P.M. Sweezy, *Theory of Capitalist Development*, pp. 215–16). Although one can doubt whether Sweezy accurately describes Rosa Luxemburg's attitude towards Marx, in the light of our agreement with the fundamental direction of the argument above is correct so we can leave the issue of responding to this minor question without a detailed analysis.

9. This was done only partially and in a journalistic form by: Parvus [A. Gelfand], *Kolonialpolitik und Zusammenbruch des Kapitalismus*, Leipzig 1907, and K. Kautsky, *Socialism and Colonial Policy: an analysis*, Belfast: Athol Books, 1975.
10. The traditional stand of the social democrat view of the proletarianization of peasants and craftsmen, as well as of colonialism, was best expressed by Karl Kautsky in Volume II of *The Agrarian Question* (London: Zwan, 1988, p. 236, 311) [Cf. Idem, *The Agrarian Question*, Vol. 1, p. 168]. Shortly before the war, the view of social democrats, including K. Kautsky, R. Hilferding and others, began to undergo certain changes. Nonetheless, it never transformed into a deliberate political manifesto. This was only done by the communist movement in the inter-war period.
11. Luxemburg, R. (1918) *The crisis of German social democracy: The Junius Pamphlet*, New York: Socialist Publication Society, p. 36.
12. Ibid., p. 36.
13. Ibid., p. 17.
14. P. Frölich, *Rosa Luxemburg, Gedanke und Tat*, Paris 1939, pp. 163 and 210.

9 Rudolf Hilferding's Theory of Finance Capital

1. *Finance Capital* first appeared in Vienna in 1910. However, as follows from the preface, the manuscript of the work was written as early as around 1905.
2. Hilferding, R. *Finance Capital*, London: Routledge & Kegan Paul, p. 21.
3. Furthermore, there is another factor highlighted by Hilferding contributing to the growth of significance of banks and banking capitalists. He assumes that at a decreasing rate of profit, the rate of interest in capitalism is maintained at a constant level, and hence proportionally increases. He writes: 'In a developed capitalist system, the rate of interest is fairly stable, while the rate of profit declines, and in consequence the share of interest in the total profit increases to some extent at the expense of entrepreneurial profit. In other words, the share of rentiers grows at the expense of productive capitalists, a phenomenon which does indeed contradict the dogma of the falling interest rate, but nevertheless accords with the facts. It is also a cause of the growing influence and importance of interest-bearing capital, that is to say, of the banks, and one of the main levers for effecting the transformation of capital into finance capital' (ibid., pp. 103–4).
4. Ibid., p. 225.
5. Ibid., p. 180.
6. Ibid., p. 180.
7. Ibid., p. 180.
8. Ibid., pp. 227–8.
9. Ibid., p. 228.
10. Ibid., p. 231.
11. Here, we omit Hilferding's exposition of the theory of monopoly prices, which is known from the basic political economy course. It is widely accepted that since Hilferding the theory of monopoly prices has not been significantly developed. Cf. Sweezy, P.M. (1962), *The Theory of Capitalist Development*, 4th edition, London: Dobson Books Ltd, chapter 15.
12. R. Hilferding, op. cit., p. 234.

13. Ibid., p. 297.
14. Ibid., p. 310.
15. Ibid., p. 314.
16. Ibid., p. 324.
17. Ibid., p. 335.
18. Ibid., pp. 368–9.
19. Ibid., p. 370.

10 Lenin on Imperialism and the Accumulation of Capital

1. It is, for example, noteworthy that when Karl Kautsky's *Agrarian Question* appeared, Lenin immediately responded with an enthusiastic review, and in the preface to *The Development of Capitalism in Russia*, he expressed his regret that he could not make use of the most outstanding publication after the third volume of *Capital* while writing his book. Meanwhile, the first minor mention of R. Hilferding's *Finance Capital* is found as late as in a 1914 work (discussed below).
2. Nikolai Bukharin, *Politicheskaya ekonomiya rantye. Teorya cennosti i pribyli avstriyskoy shkoly*, Moscow 1919. From the biography, it is clear that Bukharin wrote this work in Vienna in 1912–1913. Cf. *Bolshaya sovetskaya encyclopediya*, vol. 8, Moscow 1927, p. 272: *The Economic Theory of the Leisure Class*, International Publishers Co., New York in 1927.
3. Lenin, *Collected Works*, vol. 36, p. 299.
4. Ibid., p. 323, italics in the original.
5. Lenin, *Collected Works*, vol. 21, pp. 342–3. Of course, there is no indication yet that Lenin already had in mind Russia as the first socialist country.
6. Lenin, *Imperialism, the Highest Stage of Capitalism*, Peking: Foreign Languages Press 1970, p. 3.
7. Bukharin, N. (1972) *Imperialism and World Economy*, London: Martin Lawrence Limited, p. 157, footnote 2, and p. 158.
8. Lenin, *Collected Works*, vol. 22, p. 105, italics in the original.
9. Ibid., p. 195.
10. Ibid., p. 266.
11. Ibid., pp. 266–7.
12. Ibid., p. 276.
13. Ibid., vol. 35, pp. 93–4.
14. Page of the first German edition of the *Accumulation of Capital*, where the author writes about the necessity of completing Marx.
15. *Leninskiy sbornik*, vol. 22, p. 347.
16. Lenin's pseudonym. R. Luxemburg refers to the collection of Lenin's articles, in which the work 'A Characterisation of Economic Romanticism' was published.
17. Elsewhere, R. Luxemburg counts Vladimir Lenin in the 'Pleiad of Marxist optimists', such critics of the Narodnik movement as Kablukov, Manuilov, Issayev, Skvorcov, Struve, Bulgakov, Tugan-Baranovsky. Taking note of this statement of R. Luxemburg, Lenin adds: 'the Russian Marxists: Kablukov, Manuilov!!! Issayev!!! (ha-ha)' (*Leninskiy sbornik*, vol. 22, p. 344). He probably meant that these economists were not even regarded as the 'legal'

Marxists. Thus, it is symptomatic that R. Luxemburg treats Lenin as one of the 'legal' Marxists, one of the Marxist optimists regarding the development of capitalism. A similar opinion about Lenin is found on the occasion of the critical account of Bulgakov's dispute with the Narodniks. In a footnote, R. Luxemburg wrote: 'A quite uncompromising version of the same view is given by V. Ilyin [Lenin]: "The romanticists (as he calls the sceptics) argue as follows: the capitalists cannot consume the surplus value; therefore they must dispose of it abroad. I ask: Do the capitalists perhaps give away their products to foreigners for nothing, throw it into the sea, maybe? If they sell it, it means that they obtain an equivalent. If they export certain goods, it means that they import others" (*Economic Studies and Essays*, p. 2). As a matter of fact, his explanation of the part played by external commerce in capitalist production is far more correct than that of Struve and Bulgakov' [footnote, p. 288]. (On the reading of this page, Lenin remarks – apparently because of the words that Ilyin gives 'a quite uncompromising view (...)': 'obscure *Orakelspruch!*', *Leninskiy sbornik*, vol. 22, p. 344.)

18. Reading this statement, Lenin wrote the following words: 'Nur der kapitalistische Ausdruck' (only capitalist expression) and 'the general law of all social formations', briefly adding: 'Vot vzdor-to!!' (what nonsense!!) (*Leninskiy sbornik*, vol. 22, p. 344). This did not prevent many later authors from maintaining that the dogma that the law of faster growth in department I than II in the conditions of the socialist economy was formulated by Lenin. The 'accused' Rosa Luxemburg was denied even the doubtful merit of formulating this 'law'.
19. Lenin, *Collected Works*, vol. 2, pp. 155–6.
20. Lenin, *Collected Works*, vol. 21, p. 90.
21. Let us pay attention to the dates. Lenin began writing the article in the spring of 1914 in Poronin and he completed it in November 1914 in Berne. In 1918, the article was published as a pamphlet with Lenin's preface but without the bibliographical part. The publisher of the fourth edition of Lenin's collected works informs that the full text of this article was first published in accordance with the manuscript in 1925 and hence after Lenin's death. However, contents of that full text show that the manuscript was corrected by either Lenin or the publisher. In the bibliography, we read: 'For the further development of Marx's economic views as applied to recent phenomena in economic life see Hilferding's *Finance Capital* [in Russian], St. Petersburg, 1911 (outstanding inaccuracies in the author's views on the theory of value have been corrected by Kautsky in "Gold, Papier und Ware",—"Gold, Paper Money and Commodities"—in *Die Neue Zeit*, XXX, 1, 1912, pp. 837 and 886); and V. Ilyin's *Imperialism, the Highest Stage of Capitalism*, 1917 [Lenin, *Collected Works*, vol. 21, p. 89]'. Reference to this work of Lenin from 1917 testifies to the fact that the text underwent certain changes, made perhaps by Lenin himself. The same is indicated by Lenin's well-known work on the American agriculture from the same year (1917). In these circumstances, a question arises why Lenin did not eventually decide to attach his bibliographical references to the pamphlet. At the current state of knowledge, it may seem that among the opinions which evoked his reservations there was also the issue of evaluation of Rosa Luxemburg's *Accumulation*. Perhaps Lenin initially corrected the text

- but later came to the conclusion that it is not merely about the minor corrections.
22. Lenin, 'Would-be *Uniters*', in: Lenin, *Collected Works*, vol. 19, p. 495, italics in the original [Cf. *Lenin o Polsce i polskim ruchu robotniczym*, Warsaw 1954, p. 167]. Cf. The following articles [contained in the same collection]: 'To the Secretariat of the International Socialist Bureau' [Cf. Lenin, *Collected Works*, vol. 18, pp. 276–7]; 'The *Vexed Questions* of Our Party' [Cf. *Ibid.*, pp. 405–12]; 'Notification and Resolutions of the Cracow Meeting of the Central Committee of the R.S.D.L.P. and Party Functionaries' [Cf. *Ibid.*, pp. 447–66]; 'The Split Among the Polish Social-Democrats' [Cf. *Ibid.*, pp. 479–84]; 'A Good Resolution and a Bad Speech' [Cf. Lenin, *Collected Works*, vol. 19, pp. 528–30].
 23. Jan Dzięwulski wrote: 'I was also reflecting on its [Rosa Luxemburg's theory – T.K.] relation with the Leninist approach to the problem of markets and hence of the capitalist expanded reproduction as well as its relation with the Leninist theory of imperialism. In the first instance, I affirmed rather contradictory, and in the second – rather complementary relation between views. In both cases I took a stand similar to that of T. Kowalik (cf. his articles in *Ekonomista*, 1963, 1 and 1969, 1). However, the "similar" stand does not imply "identical". For instance, I completely disagree with Kowalik's thesis that Lenin's *Imperialism, the Highest Stage of Capitalism* can be treated as a synthesis of the works of Hilferding and Rosa Luxemburg. Lenin regarded *Accumulation* as erroneous and signs of its reading can be hardly found in *Imperialism*. In my opinion, both of these works are not merely antagonistic since they analyse imperialism from two different angles and on two different levels of reasoning' (Dzięwulski, J. (1970) 'O rzeczywistej treści i walorach naukowych teorii akumulacji kapitału R. Luksemburg' ('On the real substance and scientific value of Rosa Luxemburg's Theory of the accumulation of capital'), *Ekonomista*, 1, p. 111, footnote 38).
 24. F. Oelssner, *Rosa Luxemburg, eine kritische biographische Skizze*, Berlin 1901, p. 179.
 25. Lenin, *Imperialism, the Highest Stage of Capitalism*, Peking: Foreign Languages Press 1970, p. 11.
 26. *Ibid.*, p. 73.
 27. *Ibid.*, pp. 73–4.
 28. *Ibid.*, p. 73.
 29. Ben B. Seligman wrote: 'in 1899 Hobson went to South Africa to report on the Boer War, and out of this experience came one of his great works, *Imperialism*, a book from which Lenin drew extensively. Again, the theory of underconsumption played a central role, for it was the need for metropolitan centers to dispose of surplus goods that motivated imperialist drivers' (Seligman, B.B. (1962) *Main Currents in Modern Economics, Economic Thought since 1870*, New York: Free Press of Glencoe, p. 224). And further, similarly: 'Hobson also used the underconsumption thesis to explain imperialist drives by modern national states. The idea that a surfeit of goods resulted in an expansion of capitalism beyond metropolitan centers was also employed by Marxists. In fact, Lenin appropriated Hobson's argument for his own uses with but little change' (*ibid.*, pp. 228–9). Seligman accompanied these sentences with a characteristic footnote: 'This by no means is intended to denigrate the work of Bauer, Hilferding, Kautsky and Luxemburg' (*ibid.*,

- p. 816, footnote 452). A similar evaluation of Hobson's book (in reference to the relationship between the theory of imperialism and the thesis of underconsumption) is given by M.H. Dobb, in: *Political Economy and Capitalism*, London 1946, p. 266.
30. J.M. Keynes wrote: 'for nearly fifty years Mr Hobson has flung himself with unflagging, but almost unavailing, ardour and courage against the ranks of orthodoxy' (Keynes, J.M. (1960) *The General Theory of Employment, Interest and Money*, London: Macmillan & Co, pp. 364–5). Furthermore, both Seligman and Keynes in the books quoted here recall the repressions encountered by Hobson after claiming the 'heresy' of underconsumption. Perhaps it is worth recalling one of them: the management of London courses denied Hobson permission to lecture in political economy. That was supposed to be the outcome of an intervention of a certain professor of economics (thought to be probably Frances Y. Edgeworth), who argued that from a rational point of view, the main idea of Hobson's insufficient demand is equivalent to an attempt to prove the flatness of the earth (J.M. Keynes, op. cit., p. 366). In the ironical words of Hobson quoted by Keynes, this astonishment of the professor was expressed in the following way: 'How could there be any limit to the amount of useful saving when every item of saving went to increase the capital structure and the fund for paying wages? Sound economists could not fail to view with horror an argument which sought to check the source of all industrial progress' (ibid., p. 364).

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