Michał Kalecki

'Henryk Braun', "Czy możliwe jest "kapitalistyczne" wyjście z kryzysu?", *Przeglad Socjalistyczny*, 2/10, 1932. In *Collected Works*, vol. 1

Is a 'Capitalist' Overcoming of the Crisis Possible?[1]

(1932)

1. As not only months but years of the world economic crisis pass by, as it continues to deepen and the signs of improvement temporarily appearing here and there quickly fade, erased by new waves of ever deeper depression, the question, When will the crisis end? increasingly gives way to a different question, whose very formulation in 1930, or even at the beginning of 1931, caused bourgeois economists merely to shrug their shoulders impatiently: Is the overcoming of the present crisis *altogether possible* for the capitalist system?

A few English economists and socialist politicians have responded to this question in a rather general way in the leftist English press. A politically moderate professor of economics of Oxford University, G. D. H. Cole, believes that so far there are no signs of improvement; that in fact the world crisis is intensifying:

> It is quite clear that the capitalist system can collapse at any moment and that it is now closer to catastrophe than at any other point in past history, not excluding 1919 . . . . However, some 'patching up' [of the present system] is possible—and even a temporary return to capitalist 'prosperity', which means prosperity for capitalists . . . . I would not assert with certainty that the capitalists will not apply some measures which will temporarily improve the situation. Everything would seem to indicate, though, that they will be unable to do this in time; this is not out of the question, however . . . . But I am convinced that the basic causes of the crisis are rooted deeply in the capitalist system, and that with this system no lasting improvement is possible.[2]

According to another economist, J. A. Hobson, author of a well-known study on imperialism,[3] because of the intensity, persistence, and universality of the present crisis, together with the general instability of the monetary system, measures of exceptional scope and boldness are required to overcome it. To prevent a catastrophe in the system, and to extend its life for some time, Hobson believes that internationally co-ordinated credit assistance to debtor countries and world price stability are required.

An extensive analysis of the world economic situation and a discussion of possibilities for overcoming the crisis was recently put forward by the eminent Soviet economist E. S. Varga (*Intern. Presse-Koresp.* of this July).[4] His study concerns the last quarter of 1931, but its general conclusions and forecast are still most timely. Here is the summary of Varga's main arguments on the question which interests us, i.e. the 'capitalist' overcoming of the crisis.

First, he describes in detail its past course. He indicates the generality of crisis phenomena and links them with the chronic crisis in agriculture. He points out the depth of the depression (expressed in the volume of the fall in output) and its acuteness (the great—though irregular—fall in prices, and the shrinkage of entrepreneurial profits). He emphasizes the exceptionally strong set-back to investment activity and the persistent accumulation of stocks, as well as the special role of the financial crisis. He also shows the massive and widespread decline in the working classes' standard of living (affecting not only the unemployed but also, in view of the fall in real wages, the employed), and the contradictions in the capitalist world, which have aggravated the crisis and have led already to the first war in the East. Finally, having shown the importance of social changes in the USSR, Varga moves on to discuss the further prospects for the crisis.

He observes that, as yet, there are no signs of an upturn in the business cycle. The financial crisis is deepening; world output, and in particular investment activity, continue to fall. The depreciation of currencies, which Varga identifies with inflation, does nothing to mitigate the crisis even in individual countries, since depreciation has already spread to such a considerable part of the world that none of those countries which have implemented it has thereby significantly increased its competitive position. Besides this, the few States which have been able to maintain the gold standard are isolating themselves from the others with tariff barriers. Consequently, Varga believes that this year at least—1932—will be a year of crisis for the whole world economy.

At the same time, he vigorously argues against the fatalistic theory which holds that a 'capitalist' overcoming of the crisis is impossible. Here one should distinguish between the *structural crisis of capitalism*, going on for years now, and the present *crisis phase of the business cycle*, whose intensity can be explained by this background, but which—if the social rule of the bourgeois is not toppled—can be overcome within the framework of the capitalist system. For in the present business crisis—as in previous ones—there are factors operating which both contain the seeds of the system's downfall and prepare the ground for a future business upswing.

The reduction of output deepens the crisis, but at the same time is a factor in overcoming it, since it leads to the liquidation of commodity stocks. The sharp fall in prices causes great losses for capitalist enterprises, but at the same time cheapens elements of fixed capital[5] and thereby stimulates its utilization, and hence investments. The credit crisis, resulting in numerous bankruptcies, also deepens the economic crisis; but at the same time a process of concentration occurs (a transfer of failing companies into the hands of creditors), combined with large write-offs of the book value of capital, so that the same amount of profit is now obtained from a smaller capital value, thereby increasing the profit rate. Finally, the reduction of workers' wages deepens the crisis by reducing still further the domestic market, while at the same time providing one of the strongest incentives to a renewed employment of capital and hence also to the replacement, investment, and the expansion of capital equipment.

Obviously, during the structural crisis of capitalism, overcoming the crisis phase of the business cycle produces even greater difficulties than before. During the structural crisis, the monopolistic nature of capitalism and the permanent excess of fixed capital counteract tendencies towards the renewal and expansion of fixed capital. The conquest of new markets and the greater penetration of colonial markets meet with difficulties. The aggravation of imperialist contradictions and the constant threat of war check the tendency to overcome the crisis. Nonetheless, Varga believes that the above-mentioned factors, though in a changed and weakened form, together make up an automatic mechanism which determines the course of capitalist economic developments. Thanks to this mechanism the capitalist system is capable of overcoming the present phase of the business cycle.

It would be wrong to deny this possibility, but it is equally wrong to forget that the overcoming of the crisis by capitalism is inseparably linked to the position taken, and the political actions pursued, by the working class.

2. Varga's arguments, summarized above, concerning the specific factors involved in overcoming the crisis within the framework of the present capitalist system provoke some doubts and questions.

Above all, Varga's identification of depreciation with inflation may lead to serious misunderstandings. Inflation consists in the creation of

purchasing power not based on a share in the current social income (e.g. through expansion of credit by the bank of issue or commercial banks). Inflation in a non-isolated economy generally causes devaluation, i.e. depreciation of the currency (a fall in its value in relation to other currencies). However, this depreciation can take place without previous inflation and—as has now happened in Great Britain—can even be combined with restriction of credits, i.e. with deflation. Among the countries which have recently devalued, typically inflationary signs are observed only in Japan, which has financed military operations through credit expansion by the bank of issue.

As regards the effects of devaluation itself, though it does not contribute significantly to a direct mitigation of the economic crisis, it does have a certain balancing influence on the financial perturbations (i.e. the financial crisis) that intensify it. The countries which have retained the gold standard are mainly the creditor countries. Owing to the fall in the exchange rates of their debtors, imports from the creditor to the debtor countries have declined considerably, which will contribute to a gradual payment of debts. In one of the recent numbers of *Socialist Review* we described in more detail those balancing processes,[6] which appeared first and foremost in the form of payments of French credits by England. Owing to the increased confidence of France in the English capital market, such processes even caused a return of the earlier withdrawn French capital to England. This tendency has weakened recently as a result of financial perturbations caused by the Kreuger collapse.[7] The international financial system is already in such a state that as fast as holes begin to be patched up in one place, new holes appear in another. However, if a complete breakdown of international finances does not occur in the mean time, one should expect devaluation to contribute to a certain extent to ending the financial crisis (which obviously still forms no basis for overcoming the economic crisis, but only ameliorates the factors intensifying it).

Next it should be noted that the depletion of stocks due to the shrinkage of output during the crisis is neither the only, nor even the main, reason for the eventual upturn. As Varga himself mentions several times, during a crisis investment activity in particular shrinks, and therefore—in my opinion—it is precisely here that one should seek the starting-point of processes that will bring an upswing of the business cycle. Owing to the fact that during a crisis investment activity is on a lower level than that required for simple reproduction (maintenance) of the existing capital equipment, this equipment is also gradually depleted. Unused and outdated machines are sold for scrap, and new ones are not purchased to replace them. Besides, a considerable number of machines—and equipment in general—still kept in factories has not been reconditioned nor maintained properly, and may have become obsolete as well (due to technological progress), and is therefore only partially usable. On the other hand, since in a certain phase of the crisis the output of consumer goods generally starts declining more slowly than the rate of this contraction of capital equipment, there is a real need to employ the existing equipment more fully, which in turn requires investment. There is then a better chance of intensifying investment activity, which is the basic foundation for overcoming the crisis.

We also have reservations about the other factors of automatic improvement enumerated by Varga. Capital equipment becoming cheaper because of the fall in prices does not, as a rule, occur more rapidly than the average fall in profits. Therefore the hypothetical rate of profit in a new firm would be no higher than in preceding stages of the crisis. Hence, in my opinion, this factor cannot be an independent stimulus to undertaking investments. As regards the reduction in the book value of capital because of write-offs—while it does indeed increase the nominal rate of profits, this is not a sufficient reason for expanding an existing firm or starting up a new one as long as the crisis lasts.

As regards the reduction in workers' wages owing to the domestic market shrinking, which Varga mentions, this either causes a fall in prices or an accumulation of stocks (or both). In other words, profits either do not rise at all, or are realized in the form of stocks.[1] In these conditions the cheapening of labour cannot stimulate the establishment of new firms.

In the final analysis, therefore, we believe that, of those components of the mechanism of the capitalist economy which could form a foundation for overcoming the crisis, the contraction of capital equipment caused by the decline of investments (and also by the running down of stocks) should be put in first place.

However, all these factors which affect the course of the crisis do so only after a long time. Former crises as a rule have ended sooner—on account of the intervention of some 'external' factors, such as the conquest of new markets, or a wave of technological innovations.

[1] See 'Reduction of Wages during Crisis', [pp. 42–3].

Today—since the colonial countries have also been drawn into the orbit of capitalism—expansion of markets in the geographical sense is almost impossible. The only possibility would be a demand for new goods, which would create new markets. The scope and depth of the present crisis, however, make this way of overcoming it highly unlikely. The same can be said of possible innovations.

Hence today, of the possible 'external' factors which might contribute to overcoming the crisis, the only one left is a 'wartime boom', which, as the war expands, for obvious reasons would greatly undermine the *social viability* of the present system and make the possibility of a capitalist overcoming of the crisis highly doubtful.

Finally, we should mention yet another possibility, namely a certain form of inflation consisting of individual states, or groups of states, starting up major public-investment schemes, such as construction of canals or roads, and financing them with government loans floated on the financial market, or with special government credits drawn on their banks of issue. This kind of operation could temporarily increase employment, though on the other hand it would retard automatic 'natural' adjustment processes which might lead to overcoming the crisis. Besides this, if it were to be carried out on a large scale, it would have to be co-ordinated by an international agreement of the individual capitalist governments, which, given today's quarrelling imperialisms, is almost out of the question.

3. There seems to be almost universal agreement that at the present moment there are no signs of the world crisis being overcome. Hence the above arguments are of rather a theoretical nature. They point to ways of overcoming the crisis which are still open to the capitalist system. If and when that system will embark on such measures, and whether they will indeed lead it out of the crisis, is another matter. The decisive factor here is obviously not the economic but the social one—the position taken by the working class.

Notes

[1] First published as 'Czy możliwe jest "kapitalistyczne" wyjście z kryzysu?', under the pseudonym 'Henryk Braun', in Przeglad Socjalistyczny, 2/10, 1932.

G. D. H. Cole was a socialist, J. A. Hobson a liberal reformer, and E. S. Varga a well-known Marxist economist. In analysing the chances of overcoming the crisis, Kalecki and Varga differ from the first two by seeing the attitude of the working class and its political actions during the crisis as of fundamental importance. More significant from the point of view of the further development of Kalecki's theory, however, are his disagreements with Varga.

In dealing with the business cycle and its crisis phase (leaving aside problems of the 'structural' crisis of capitalism), Marxist economics of that time generally limited itself to a rather mechanical explanation. The main weakness of this approach was inconsistency in rejecting Say's Law. Differences between Varga's views quoted here by Kalecki and his own position can be clearly seen in the evaluation of the effects of wage reductions on overcoming the crisis. Varga takes a position consistent with the theory of under-consumption: a reduction in wages deepens the crisis, since it limits the domestic market. However, underlying his opinion that wage reductions are at the same time one of the most important stimuli to the re-employment, replacement, and expansion of capital equipment is the assumption that what workers do not consume on account of wage reductions will be 'purchased' by capitalists in one form or another; hence the reduction in labour costs will increase profits, which will stimulate the upswing. Indeed, if Varga's argument is taken to its logical conclusion, the problem of realization does not arise here.

Kalecki opposes this by claiming that wage reductions will be accompanied either by a corresponding fall in prices (in which case the entire production will be sold, but neither capitalist profits nor profitability will change, and hence there will be no incentive to increase economic activity) or (with no, or insufficient, price reductions) by an accumulation of unsold stocks, which also will not stimulate the upswing. The gist of the critique of Varga's position is Kalecky's belief that the course of the business cycle is determined by investment activity, which in turn is affected by factors influencing the expected profitability of investments

The thesis at the end of the article— that all previous crises ended not so much as a result of the 'automatic mechanism of the business cycle but as a result of some external factors—was more fully developed in Kalecki's Theory o f Economic Dynamics (1954). In this work he went even further and argued that, leaving out such semi-exogenous factors as technological progress, overcoming the crisis cannot be taken for granted (see Collected Works, vol. ii). As regards the second 'external' factor mentioned by Kalecki ('wartime boom1), it has been sometimes argued that in the USA 'the great crisis of the thirties never ended but only melted away in the great mobilization of the forties' (J. K. Galbraith, American Capitalism, Cambridge, Mass,, Houghton Mifflin, 1952, p. 69),

The 'synthetic' stimulation of the upswing through the inflationary financing of public works was not Kalecki's original idea (see E. Lipinski's introductory article, 'On Economic Development' in the first number of the bulletin of the 1SBCP, Konlunktura Gospodarcza, 1/1, 1928, 5 (in Polish); similar views were also expressed at the time by K. Studentowicz and others, though deflationary views were dominant in economic papers). Kalecki's contribution was to stress that, with capital equipment lying idle, such an operation leads not only to a rise in prices but also to a rise in production and employment.

[2] The source of the quotation has not been identified.

[3] J. A. Hobson, Imperialism: A Study (New York, James Pott, 1902).

[4] Internazionalle Presse Korespondenz, 13, 15 Feb. 1932, pp. 327-64 (see esp. p. 345).

[5] In these early works Kalecki used the term 'constant capital'; in later editions of these works, however, he always replaced it by the term 'fixed capital'. Hence the term 'constant capital' here has also been replaced by 'fixed capital'.

[6] See 'Mr Keynes's Predictions', this volume.

[7] See M. Kalecki,'The Swedish Match Trust', Przeglad Gospodarczy, 9/3,1928 pp. 101-4 (in Polish) (also in Collected Works, vol. vi); 'The Match Trust and the Soviets', Przeglad Gospodarczy, 9/20, 1928, pp. 1027-8; 'Ivar Kreuger, Przeglad Socjalistyczny, 9, 1932, p. 12.