The Function of Capital Exports under Capitalism
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(The following excerpt from Grossmann's *Das Akkumulations- und Zusammenbruchsgesetz des kapitalistischen Systems* (1929) is an extract from a complete translation of the text that will be published along with other writings of Grossmann as part of a project that Rick Kuhn is currently handling. The excerpt covers pp. 490 to 530, which are part of a long chapter called 'Modifying countertendencies'.)

The function of capital export under capitalism. The overaccumulation of capital and the struggle for investment spheres. The role of speculation in capitalism.

(a) Earlier presentations of the problem

The export of capital is a fact as old as modern capitalism itself. From a scientific point of view we have to explain why capital is exported and what role the export of capital plays in the mechanism of capitalist production.

Sombart is the best example of the completely superficial way in which these problems are discussed in the prevailing theories. According to Sombart, imperialist expansion essentially has nothing to do with the role of colonies as sales outlets or raw material sources. 'No one can doubt (!) that economic imperialism basically means that by enlarging their sphere of political influence the capitalist powers have a chance to *expand the sphere for the investment of their excess capital*.'[1]

Sombart makes the drive for power a precondition for the expansion of capital, a conception that is simply false and which I shall disregard here. The opposite is true: the expansion of capital, 'peaceful financial penetration', is a precursor of the political domination that follows, or, as Sartorius says, 'capital is the political forerunner'.[2] But from a purely economic point of view what Sombart fails to explain is *why there is such a thing as the expansion of capital to foreign territories*. This is something self-evident for him, which 'no one can doubt'. What we have to explain in terms of theory is simply presupposed as self-evident without proof or analysis. However, as a matter of fact, capital exports are by no means as obvious as that. 'Just as it was normal in the past, so too today it is very obvious that the capitals newly acquired or available in a country should find employment there.' Whether one is dealing with enterprises that are being expanded or with money capitalists, 'they allow themselves to be influenced by investment prospects in their productive activity, by how easily these are available in terms of the ability to obtain a profit or the yield on their bonds. For all of which the best chances are generally those available to them in the national economy'.[3] Only here does the economy reckon with known, predictable factors. So why are capitals not invested in the capitalist home country itself? Because they are 'superfluous' there? But what does superfluous mean? Under what conditions can a capital become superfluous?[4] Sombart

simply uses journalistic cliches without the faintest attempt to clarify concepts scientifically. Yet the issue has been debated for a whole century, ever since Ricardo raised the question whether there is a compulsion to export capital only to deny that there is. 'It is, however, always a matter of choice in what way a capital shall be employed… When merchants engage their capitals in foreign trade, or in the carrying trade, it is always from choice, and never from necessity: it is because in that trade their profits will be somewhat greater than in the home trade'.[5] Sombart simply leaves the key problem to one side.

S. Schilder's 'scientific discovery' is even more hopeless. The interrelations between the export trade and the foreign investments of creditor countries supposedly 'represent an equalising mechanism that works in a way similar to the mechanism implied in the relationship between exchange rates and foreign trade'. For example, if British overseas investments fall, then there is a growing surplus of commodity imports into Britain. 'A more rapid growth of this surplus of imports may be regarded as a symptom that for whatever reason British overseas investment activity has stalled, whereas, in contrast, a slower growth…of this import surplus suggests that overseas investments have picked up.'

'However', Schilder goes on to complain, 'economics has so far failed to take note of this peculiar play of economic forces'.[6] Schilder wants to claim he has discovered a peculiar 'equalising mechanism' where, in reality, there is simply the usuial subtraction that has nothing to do 'a play of economic forces' and even less with the science of economics. Since capital exports are basically in part at least an export of commodities, it follows that one has a straightforward case of subtraction when, for a given magnitude of imports, every reduction in the export of commodities necessarily increases the surplus of imports.

In his book on imperialism J. A. Hobson maintains that foreign investments form 'the most important factor in the economics of imperialism' and are becoming ever more important.[7] 'Aggressive imperialism…which is fraught with such grave incalculable peril to the citizen, is a source of great gain to the investor *who cannot find at home the profitable use he seeks for his capital*, and insists that his Government should help him to profitable and secure investments abroad.'[8] But why are profitable investments not to be found at home? This decisively important question is not touched on even once by Hobson, just as his book tends in general to avoid all problems of theory, even if it constitutes a valuable descriptive work.

In Sartorius v. Waltershausen, likewise, one finds no answer to the question posed, even though he takes up the problem in a special chapter and asks, 'Why does domestic capital invest abroad?'[9] 'For private investors the decisive issues concern the prospects of interest, dividends and stock prices, as well as how secure investments are, their duration and the mode of repatriation', etc. (p. 52) But what is the economic compulsion at work here? This question is not clarified. Sartorius merely states that 'in today's world economy the agrarian countries are long-term recipients of capital, the industrial countries donors'. (p. 52) But why? Sartorius confines himself to the assertion that in the agrarian countries 'capital formation is at a much lower stage than it is in countries that

have an advanced industry'. (p. 19) But why? 'However', he goes on to say, 'even the economically advanced countries stand in debtor/creditor relationships to one another'. (p. 52) Obviously, the agrarian/industrial distinction cannot account for export of capital. In that case what is the driving force behind this? Sartorius says nothing about that. He refers in passing to the fact that 'in countries that are economically saturated and have a mass of savings to lend the class of lenders of capital grows and that of entrepreneurs falls relatively. The rate of interest tends to stay low and perhaps even to decline further'. When, under what circumstances, is a country 'economically saturated'? Sartorius simply describes the fact instead of explaining it. 'There is the mass of disposable capitals for everyone to see. The more extensively this appears on the market in relation to the opportunities for investment, the more the rate of interest falls.' As capital is now exported abroad, 'export capitalism counteracts the fall in the national rate of interest'. (p. 35) Underlying this whole discussion is a notion of 'economic saturation', of a surplus of disposable capital in relation to the opportunities for investment. But this notion is not explained. Why, under what circumstances, are investment opportunities restricted for capital? Sartorius appars to have a vague feeling that a state of saturation and thus of export of capital is linked to a relatively advanced stage of capitalist development. When citing the case of Japanese expansion in China he notes, 'To be successful in China what the Japanese currently lack in any case is an important precondition, namely, extensive capital export, *which is only conceivable when the island kingdom has reached a much higher stage of economic development* than is true at the moment'. (p. 52) The 'drive to expand economically', the tendency to invest capital abroad, is thus tied in with two factors: first the 'lack of investment opportunities at home', (p. 54) and second, a much higher stage of capitalist development. No attempt is made to go beyond these empirical statements, in particular Sartorius fails to show why under these conditions 'a state of saturation' is bound to emerge.[10]

The treatment of the problem of capital exports in Scott Nearing and Joseph Freeman is just as unsatisfying. They of course are the authors of a book on American imperialism.[11] Why is capital exported? Their answer is that in the leading industrial countries of Europe the export of capital emerged at a time when 'the surpluses in the domestic economy were more profitably invested abroad than at home'. They describe the actual situation without explaining it. Why is it that capital cannot be invested as profitably at home as it can be abroad? Is that simply an accident, a chance configuration of the economic relations between the national and the international? Why do such contingencies occur only in certain countries, whereas others like the USA, for example, have been importing capital for over a century? Yet the authors themselves point out that the industrial countries of Europe only became capital exporters at a specific stage in their development. The same is true of the USA. 'At the beginning of the present [twentieth] century the United States *had reached this point in its economic developpment*.' In other words, the key factors behind the export of capital are not chance configurations of market relations between domestic and international economies but the laws that govern the economic evolution of a given country internally, viz. a determinate stage of that evolution. The United States had simply not developed that far at any stage in the 19th century and only finally reached it at the start of the 20th century. The trend was then accelerated by the war and 'the experiences of the war compressed into a decade a

process that would have extended, ordinarily, over a much longer period'. But what were those 'experiences'? The enrichment of the USA by the war. It follows that enrichment is a factor that speeds up the export of capital. In other words, capital exports depend on the extent of a country's wealth and not on random occurrences in the world market. The authors show that while there is a 'capital surplus' in the US, in Canada, for example, there is a 'capital shortage'.[12] 'The United States was still a net debtor to the outside world in 1913…The war of 1914 greatly expedited the transformation of the United States from a debtor into a creditor nation.'[13] Why there had to be such surpluses, why the domestic economy contained no opportunities for investment, is something the authors have failed to show.[14]

But even in the Marxist literature one looks in vain for an explanation of the true function of capital exports, even though in the last few years a great deal of attention has been given to this problem and the problem of why capital migrates. The question of exactly what role and function Marx's theory assigns to the export of capital is never raised, much less answered. Marxist writers have seen and described the appearances that present themselves at a surface level but not attempted to integrate those into Marx's overall system. So Varga says, 'The importance of capital exports for monopoly capitalism was analysed in detail (!) by Lenin in *Imperialism*; *hardly anything new can be added*'.[15] In actual fact Varga abstains from any theoretical analysis. In an essay called 'Capital export in the world economy' he adduces empirical evidence on the scale and direction of international exports of capital.[16] Yet there is no trace of any theoretical penetration of the issue in this work. 'The rate of profit', he says, 'regulates not only the influx of capital into individual branches of industry, but also its geographical migrations. Capital is invested abroad whenever there are prospects of obtaining a higher rate of profit'. This conclusion is hardly original. Ricardo himself pointed out that the level of the rate of profit determines the movement of capital not only between different spheres of production in the domestic economy but likewise between countries, as long as there is free competition, that is, no obstacles of a legal or factual nature restricting such movement.[17] However, Varga fails to understand the ~~true dimensions of the problem~~ when he goes on to say, 'Capital is exported not because it is absolutely impossible for it to accumulate domestically without "thrusts into non-capitalist markets", but because there is a prospect of higher profit elsewhere'. In other words, Varga starts from the false assumption that whatever its total magnitude capital can find an unlimited range of investment possibilities at home. He overlooks the simple fact that in denying the possibility of an overabundance of capital, he simultaneously denies the possibility of an overproduction of commodities. Further, Varga imagines that any argument that there are definite limits to the accumulation of capital and that capital exports necessarily follow because of that is incompatible with Marx's own ideas and can only be sustained from the perspective of Luxemburg's thesis of the necessary existence of non-capitalist countries.

In what follows I want to show that Varga's conception is untenable, that it was precisely Marx who showed that an unlimited investment of capital in any single country is impossible and explained the conditions under which there emerges an absolute overaccumulation of capital and therefore also the compulsion to export capital abroad.

Varga does not notice that his conception of unlimited investment possibilities flatly contradicts any labour theory of value and is incompatible with it. Investment of capital requires surplus-value. But surplus-value is labour and in any single country labour is a given magnitude (*eine gegebene Größe*). From a working population whose size is given one can only squeeze a definite maximum mass of surplus labour even if there is some elasticity in that quantum. The idea that capital can be expanded without limits is tantamount to the idea that surplus-value is likewise expandable without limits and thus independent of the size of the population, which is equivalent to saying *that surplus-value does not depend on labour*.

The same is, literally, true of Bukharin. What are the true causes of capitalist expansion? In Bukharin's conception these lie solely in the surplus profits to be gained abroad. Bukharin runs around in circles when on the one hand he underscores the absolute necessity for capitalist expansion and therefore imperialism but on the other hand claims that capital is exported to countries abroad only because 'concrete development' always occurs as a line of least resistance. 'If there was no additional market, that fact alone could not destroy the foundations of the existence of capitalism.'[18] If one believes that there is no compulsion driving the export of capital, then one bars the way to any serious understanding of the economic basis of imperialism.

Nachimson (Spectator) contents himself with the assertion that 'the modern industrial nations possess more capital than they themselves need under the prevaling conditions and therefore they export it'.[19] What it means to say 'possess more capital than they need' is not explained.

Sternberg visualises the problem of capital export in a wholly simplistic manner, as the ratio of capital C to labour supply L, thus C/L, where the denominator has to keep growing, that is, there always has to be a surplus population of free workers (e.g. a ratio of 50/60) 'for the valorisation of capital to be possible…If the numerator grows too big, the result is expansion of capital'.[20] Such is the level of sophistication he shows in tackling a problem that has been at the centre of a theoretical controversy for an entire century! For what does it mean for the numerator to grow 'too big'? What exactly is the measure here and where are the limits? How do we define these limits? Such questions simply do not occur to Sternberg. He completely fails to mention that any conception of capital growing exceptionally large necessarily presupposes a certain state of technology and thus also of the organic composition of capital. Suppose the organic composition is 20c:80v, then from every 100 units of capital 80 are used to employ a given number of workers and only 20 for means of production. If 25c is used in the numerator, that is, for means of production, so that the ratio becomes $25C/80L$, then for the given level of technology 5 units of capital are 'superfluous' and the result is that capital has to be exported. But if the organic composition changes to 60c:40v, then to hire the same number of workers we shall now need not 20c but 120c. The capital ratio is thus $120C/80L$; with a further advance of the organic composition to 80c:20v, the numerator can expand to 320c and we end with the fraction $320C/80L$. So what does it mean to say the numerator grows 'too large'? What is too large at a lower organic composition is not large enough at a higher one.

On the other hand, does this not seem to imply that to create unlimited possibilities for capital investment all we need to do is introduce technical advances, a progressively higher organic composition of capital? In that case, why do capital exports occur? What compels the businessman to export capital? Sternberg's answer is simple: capital's expansion abroad is the most powerful factor in creating a surplus population. By reinforcing the reserve army it depresses the level of wages and enables a surplus-value to arise (!). Export of capital 'is therefore one of the strongest pillars supporting the capital relation', (p. 36) because a surplus-value can arise 'only if there is a surplus population'. (pp. 16, 585)

In short, export of capital is supposed to be the key factor behind surplus population. Yet in Germany in the years 1926–1927 we saw the exact opposite; massive inflows of foreign capital were crucial to the general wave of rationalisation of plants and played a major role in displacing workers or creating a surplus population. If the export of capital was simply a matter of reducing the the 'numerator' (the amount of capital) so as to reduce the demand for labour, then a simple transfer of capital would be enough to solve this. For example, German capitalists can emigrate to Canada with their capital and never return home. But this is not an export of capital so much as a change in its nationality or a loss of capital. If one's only understanding is in terms of 'reducing the numerator', one fails to grasp the most essential aspect of the export of capital. As Hilferding correctly explained, 'By "export of capital" I mean the export of value which is intended to breed surplus value abroad. It is essential from this point of view that the surplus value should remain at the disposal of the domestic capital…The export of capital reduces *pro tanto* the domestic stock of capital and *increases the national income by the amount of surplus value produced*'.[21] If it were simply a matter of reducing the 'numerator', this essential feature of capital exports would become irrelevant.

It is superfluous to have to waste more time on a critique of Sternberg's formula. Like all the other phenomena of capitalist economy Sternberg seeks to explain the export of capital solely through the holy grail of vulgar economy, namely, competition.[22] Yet we know that the problem is precisely to explain the basic features of capitalism (and export of capital is one of them) in abstraction from any form of competition including the existence of a surplus population and on the assumption at the start of the analysis that capitalism is in a state of equlibirum. What compels the capitalist to export capital when there is no reserve army of labour and the commodity labour-power is sold at its value?

Hilferding is no clearer about the issue, however. We've seen that he denies that a generalised overproduction of commodities is either possible or necessary and derives crises solely from disproportionality. Moreover, he thinks that Marx's reproduction scheme shows that 'any expansion of production allowed by the available productive forces appears possible'.[23] So according to Hilferding there are no limits whatsoever to any and every capital being invested in a country's production. Export of capital to countries abroad only occurs because one can expect a higher rate of profit there. 'The precondition for the export of capital is the variation in rates of profit, and the export of capital is the means of equalizing national rates of profit.'[24]

The same holds true of Bauer, literally so. Bauer too defends the view that with a proportional distribution of capital between the different branches of production there are no limits to the investment outlets available to any given capital in a capitalist country. Inequality of profit rates is thus the sole reason why capital is exported. 'The rate of profit in the less developed countries that are the object of the expansionist policy of capitalism is initially higher than in Europe', says Bauer. 'Now, capitalist competition always strives to equalize rates of profit; capital always flows to where the rate of profit is highest'.[25] The export of capital is explained in terms of a 'tendency for the rate of profit to equalise'. But Bauer realises that that this explanation is quite useless when it comes to understanding the phenomena of modern imperialism. For the tendency to the equalisation of profit rates is a long-standing feature of the capitalist mechanism. So how can it explain the fact that capital exports have seen a major surge in all the advanced capitalist countries only in the last few decades and this is also when the struggle for spheres of investment has taken on more ferocious forms and become one of the characteristic features of modern imperialism? Bauer himself says; 'The drive for new spheres of investment and new markets is as old as capitalism itself. It existed in the capitalist city republics of Italy during the Renaissance just as it does in England and in Germany today. *But the sheer force of this tendency has grown enormously in recent decades*'.[26] Great Britain's 'investments abroad appear to grow more rapidly than at home'.[27] So how is the increasing force of this tendency to be explained?

Bauer's answer: The mobility of capital is a precondition for its migration, but that in turn depends on well-organised administrative and judicial systems. 'Through the agency of modern armies and navies, the legal conditions are being created in the countries not yet subjected to capitalism to enable capital to seek spheres of investment there, too.'[28] Superbly 'well-organised' justice and administration indeed that they have to be 'created' through modern militarism and navalism! Yet this sentence only tells us the opposite of what Bauer wished to prove, namely, that capitalism can lend capital even to countries that do *not* have well-organised administration and justice because the capitalists of the exporting nation have the military and diplomatic backing of their state, and if need be the army and navy can be called on as agents of compulsion. Thus the aggressive character of modern imperialism as one of the characteristic features of the latest era of capitalism, something that has to be explained, is cited by Otto Bauer as the explanation for rising exports of capital![29] Apart from this, however, if higher rates of profit are what account for the flow of capital to the less developed countries of Asia, Africa, America and so on, then it is impossible to understand why capital should ever be invested in the industries of the advanced capitalist world (Europe and the USA), given their lower rates of profit, or why their systems of production are being constantly expanded. Why is the whole surplus-vale not earmarked for capital export? In any case we know that the tendency to equalisation of the rates of profit means that the rate of profit in the advanced capitalist countries is not lower than the rate of profit in the backward countries, that the world market sees the formation of an *average rate of profit* just as individual countries do internally, because countries with a higher organic composition of capital sell their commodities at prices of production that stand above their values. In this way the capital of the advanced countries appropriates a portion of the surplus-value produced in the less

advanced countries. Bauer knows this at p. 247 of his book but forgets it at p. 461, when he comes to deal with the roots of capital export and the capitalist drive into foreign territories. If earlier he himself could show that on the world market, when two countries that stand at different stages of development deal with each other, 'the surplus value produced by the workers in those territories is not divided between the capitalists of those countries according to the quantity of labour expended in each of them but *according to the magnitude of the capital that is active in each of them*', he then falls back on the banal idea that the higher rate of profit of the less developed country is the cause of capital exports. It is not the rate of profit but the mass of surplus-value exacted by capital on a pro rata basis that is higher in these countries! We should recall the earlier argument: just as in a conceptually isolated capitalism entrepreneurs equipped with technologies more advanced than the social average sell their commodities at socially average prices and earn a surplus profit at the expense of other entrepreneurs, so on the world market countries with the most advanced technologies earn superprofits (*Überprofite*) at the expense of countries with a lower organic composition whose technical and economic development is more backward. This is what stimulates and simultaneously drives capital to keep developing technology, to push through continuous increases in the organic composition of capital in the advanced capitalist countries. Yet this only means that as technology develops and progressively higher levels of organic composition are introduced, a field simultaneously emerges for more profitable investments. However high profits may be in the colonial countries, they would appear to be even higher by way of the surplus profits that capitalist magnates make in the chemical and heavy industries at home, that is, in those branches that have a higher organic composition of capital. Which again raises the question why capital is exported at all. This whole pattern simply cannot be explained by the theory that higher rates of profit tempt capital to migrate.

On the other hand, it is not true that the organic composition of capital is always lower in the countries that have only recently been opened up for capitalist production. If the countries of western Europe needed 150 years to evolve from the organisational forms of the manufacturing period to the very advanced capitalist world trust, the colonial countries of Asia, Africa and South America do not need to repeat the entire process. They take over the capital that flows from Europe in the most mature forms that have ** in the womb of the advanced capitalist countries. In this way they skip over a whole series of historical stages, with the black indigenous populations of South Africa uprooted from their villages and hurled straight into gold and diamond mines dominated by trustified capital and its advanced forms of technical and financial organisation.[30] When oil drilling starts in Ecuador, Sumatra, Venezuela, or Trinidad, then the only most modern technical methods and installations are used, oil pipelines and storage tanks laid out, refineries constructed, and so on. For example, in Ecuador where there are three refineries, there are storage tanks in Ancon and Liberdad and threre's a pipeline in operation between Ancon and Liberdad.[31]

In British India there are refineries at Rawalpindi that have a pipeline of 70 kilometres, in Rangoon there are tanks that can contain up to 9 million barrels of oil, and Sarawak has an underwater pipeline.[32] In the Dutch Indies the huge refinery at Pankalan-Brandan (Perlak) in Sumatra processes around 10,000 barrels of crude oil a day and stores over 1

million barrels. Pipelines lead from Perlak to the refineries at Pladjoe, Susa, etc. The refinery at Balikpapan in Borneo is the second largest refinery in the world.[33] The existing storage tanks (not including those under construction) have a capacity of 1.2 million cubic metres. On the islands of the Dutch Indies hydroelectric stations of 3 million horse-power had been constructed down to 1923, designed for the electrification of the railways, and of the paper, chemicals and rubber industries. (In 1920 the whole of Europe had only 8.8 million horse-power.)[34] In Palestine they are building an entirely new type of hydroelectric station. A system of canals and punps will bring the water from the Mediterranean to upto 87 metres above the Mediterranean's sea-level, and 380 metres above the Jordan, which means 510 metres above the level of the Dead Sea. The power generated by the water's fall isn scheduled to be used for pumping stations as well as the electrification of all of the country's industries, its railways and agriculture.[35] Does Bauer seriously believe that when railways are constructed in Africa or South America by British capitalists, this happens because the railway system in colonial countries has a lower organic composition of capital than it does in Britain? The meat industry of Argentina is scarcely an appendage to the country's agriculture, as if based on craft principles, but an industry run in massive freezer installations equipped with the latest technology, with vast sums of capital invested in it by the meatpackers of Chicago. This is an industry that could only have come up on the basis of the most technology, revolutions in transport and freezing technology (refrigerated waggons and merchant ships with refrigerators), but that presumes a high organic composition of capital.

The quebracho industry of Argentina's forests has long ceased to saw the timber into blocks and export it abroad. Today tannin production is run as a large-scale capitalist industry. The system for obtaining the tannin extract is based on radial diffusion. The blocks are first pulverised in machines and the wood powder then placed in extractors that separate the tannin from the cellulose. The tannin is then concentrated in a pneumatic apparatus. The average yield of quebracho wood is a 25% tannin extract, from which one still has to remove any coloured and resinous particles. From the sort of technology involved it is already evident that the obtention of tannin is possible only as a very advanced capitalist enterprise run by large chemical concerns. The same is true of the milk industry. It is equipped with the most modern apparatuses for milking and sterilisation, separators, condensers, and so on. In all these sectors that have been set up with the latest technology the organic composition of capital is certainly no lower than it is in analogous enterprises in the advanced capitalist countries of western Europe.

Bauer senses that there is no factual basis to the argument that the migration of capital is prompted by higher rates of profit in the newly opened countries, so he tries to bolster his argument with various other factors in the conviction that piling up doubtful arguments is a good substitute for a correct explanation of the actual pattern. He says, 'In the capitalist economy of a country, a portion of the social money capital is always removed from the circulation of industrial capital. To be sure, this released money capital flows into the banks and is from there directed into the sphere of production again.' Till that happens, however, there is 'always a certain lapse of time'. If we look at matters in the flux of the reproduction process, it follows that 'at any one time a portion of the social money capital is brought to a standstill and lies fallow'.[36] Bauer then goes on to say, 'If too much

money capital is brought to a standstill', the consequences are disastrous for capitalist production. 'To start with, the turnover time of capital is prolonged….within the turnover time of capital, the production time constitutes the lesser part, the circulation time the greater part'. However, since value and thus surplus-value are only created in production, the decline of production time entails a reduction of surplus-value and profit. Therefore capitalism's economic policy involves a drive for spheres of investment that will absorb the idle money capital. Capital deploys a series of measures, for example, tariff barriers, to this end in order to 'attract' the inert money capital 'into the sphere of production' with the promise of surplus profits. The ultimate aim of these endeavours is to 'reconfigure the ratio between idle and productive capital, production time and circulation time in a more favourable way'.

Capital exports are thus one of the means used to steer the money capital excluded from the circulation of industrial capital and lying idle back into the sphere of production. 'The subjection of economically backward countries to exploitation by the capitalist class of a European country has two series of effects: in direct terms, spheres for investment of capital in the colonized country and thereby increased sales opportunities for the industry of the colonizing country; in indirect terms, new spheres of investment for capital also in the colonizing land itself…*The quantity of capital brought to a standstill in the country at any one moment is thereby reduced*.'[37]

Thus Bauer proposes a second theory to explain the export of capital, alongside the one mentioned earlier. The first conception involved productive capital and the choice facing it to invest either in the productive sectors of the domestic economy or in colonial countries. The export of capital to the colonial countries is preferred because the rate of profit is higher there than it is in the metropolitan country. Now however we are told that one is dealing not with the capital that is active in production in the metropolitan centres but with idle money capital that yields not a lower rate of profit but no profit at all. The function of capital exports is to find new investment opportunities for this *unemployed money capital*. So Bauer has two completely different explanations of capital export and conflates them.

So how do we assess the correctness of this 'theory'? Bauer argues that the unemployed capital that looks for investment is exported abroad and that wherever there is a large mass of money capital seeking investment, the rate of interest falls. 'The banks quite directly perceive the relationship of unproductive to invested capital…in the movement of the interest rate.'[38] But Bauer confuses the money capital that lies idle in the banks with capital that seeks investment.

A portion, and in fact a growing portion of the total social capital (one that grows absolutely even if it is always declining in relative terms compared with the magnitude of sales) always has to exist in money form, in the shape of money capital. If reproduction is to be continuous, the size of this portion cannot be reduced at will. Marx showed this in Volume Two of *Capital* in hs analysis of the circuit of money capital. Next to the latter he also distinguishes commodity capital and productive capital and speaks of the three forms or circuits or figures of the circulation process. All three forms are necessary and

condition each other mutually. 'If we take all three forms together, then all the premises of the process appear as its result.'[39] It turns out that 'every particular circuit (implicitly) presuppose[s] the others'.[40] Both individual and social capital pass through all three phases in succession. 'In reality…each individual industrial capital is involved in all three at the same time…Here, therefore, the entire circuit is the real unity of its three forms.'[41] The time that capital spends in each of the three phases is not arbitrary, something determined by the will of the bankers or industrial capitalists, but *objectively given*, both in terms of the nature of the particular brtanch of production and through the social organisation of the circulation process as a whole. 'It lies in the nature of the case…that the circuit itself *determines that capital is tied up for certain intervals in the particular sections of the cycle*. Only after it has *fulfilled the function corresponding to* the particular form it is in' does capital assume the next form of the circuit.[42] A part of the circulating capital must therefore always have the form of money capital as a fund for purchases and sales that have fixed deadlines.[43] Because the size of money capital (like that of commodity capital and productive capital) is not arbitrarily determined, definite numerical ratios must obtain in the division of both individal and social capital into each of the forms; as Marx says, 'definite numerical ratios must obtain in its division into parts'[44] if the reproduction process is to carry on without interruption. 'The size of the capital involved determines the scale of the production process, and this determines the volume of commodity capial and money capital, in so far as these function alongside the production process.'[45] And Marx recapitulates the results of his investigation in the following way: 'Certain laws were discovered, according to which major components of a given capital, varying according to the conditions of the turnover, must constantly be advanced and renewed in the form of money capital, in order to keep a productive capital of a given size in constant functioning'.[46] 'According to the length of the turnover period, a greater or lesser quantity of money capital is needed to set the productive capital in motion.'[47] So although money capital creates no value and thus no surplus-value since it belongs to the sphere of circulation, and although it limits the operation of the productive part of capital[48] but is itself unproductive and lies fallow, on the basis of the capitalist mode of production it cannot be either cast aside or arbitrarily reduced, because despite being unproductive and idle, it does fufill necessary functions and 'because the reproduction process itself includes unproductive functions'.[49] So even if the quantity of the money capital that is required varies according to the structure of the social exchange mechanism, all the same at any given time it is an *exactly determined magnitude* that can be calculated according to the law formulated by Marx. 'For a given velocity of circulation of money… the aggregate amount of money in circulation in a given period is determined by the sum total of commodity prices to be realised plus the sum total of payments falling due during the same period minus the payments that cancel each other out.'[50]

Bauer turns all this upside down. If Marx sees idle money capital as only a portion of the functioning industrial capital as this completes a circuit that embraces the unity of commmodity, money and productive capital, for Bauer the capital that lies idle is a money capital that is 'removed from the circuit of capital'.[51] For Marx the size of the money capital is determined by the length of the turnover period, so that a smaller sum of money capital is required when the turnover is shortened, whereas in Bauer the length of

the turnover period depends on the size of the money capital. 'If too much money capital lies fallow, the reflux of the released splinters of capital into the sphere of production occurs only gradually.'[52] So instead of a slower turnover tying up too much money capital, the amassing of too much money capital slows down the turnover! It is not the sphere of production that determines what happens in the sphere of circulation, but the reverse, the movements in circulation that are decisive for production. 'Every change in the proportion of fallow capital to invested capital, of productive capital to capital in circulation…completely transforms the face of capitalist society.'[53] And this mystical power of completely transforming the face of bourgeois society by means of changes in the proportion of idle to invested capital lies in the hands of the banks. 'They quite consciously make a more favorable structuring of this relationship the goal of all economic policy… [T]hey can easily impose their will. But it is also they who first make expansionism possible in the sense that thanks to the sheer quantity of capital available to them at any one time, they are able to direct the flow of capital abroad, to the subjugated territories, in a planned manner.'[54] So now we finally know why capital is exported to the colonial countries! That is something the modern banks want, and they can easily have their way. They consciously work to reduce the mass of the money capital and by doing so they transform the whole picture of capitalist society…And the objective laws of capitalist circulation? Obviously these belong to the realm of fantasy, at best they are valid only for the period before the rise of today's big banks.

In spite of the remarkable simplicity of Bauer's explanation, one cannot completely suppress a feeling of doubt about how correct it is. For in the first place, even if everyone today seems to agree that the laws of circulation formulated by Marx have been 'superseded', we still cnanot follow Bauer completely; all the more so as the bourgeois economists themselves side with Marx's obsolete viewpoint in opposition to Bauer and despite their enormous admiration for the bankers. They themselves absolutely deny that the banks can arbitrarily manipulate the export of capital! ' "Directing" the flow of capital', says Adolf Weber, 'isn't so easy. We shouldn't forget that not only in the national economy but obviously internationally as well the allocation of capital occurs *according to laws that are intrinsic to business*. If the domestic market cannot do without the resources that are diverted to foreign countries, there would soon be a flow in the opposite direction that would frustrate the proposed attempt.'[55] So there is simply no question of 'conscious direction' and 'banks having their way'. Only superfluous capital can be exported to foreign countries. In the second place, however, if for a moment we accept Bauer's assumption that the struggle for investment spheres serves the purpose of 'diminishing the mass of idle capital and speeding up its flow into the sphere of production', in other words that 'modern capitalist expansionism ultimately aims only to transform the ratio between productive and idle capital',[56] it still remains unexplained why this alteration of the ration should be thought to be best achieved through the export of capital to the colonies. In fact, Bauer assures us that the capital which is exported could just as well be employed in sectors of production in the domestic economy. 'It may be', writes Bauer, 'that the capital that flows into foreign regions would have temporarily remained unproductive if this outlet had not been provided. But no capital remains permanently unproductive, the exported capital would eventually *have found its way into the sphere of production at home, too*'.[57] It seems truly astonishing that the banks should

prefer to invest in the furthest parts of the globe where they can only find security for their capital 'with the protection of military force', when they can just as well find spheres for investment in the domestic economy and bring about that alteration in the ratio of productive to idle capital in regions that are much closer and better known to them without having to take recourse to military force and solely with the protection of the 'orderly judicial system' that prevails in the country. Finally, Bauer refers to fallow 'money capital' which is expelled from the circulation of industrial capital and then directed back into production through the export of capital. But from statistics on international trade Bauer knows that international capital movements take place mainly in the form of commodities, hardly ever in money form, as money capital. It was precisely Marx who showed hat we have to look beyond the veil of money to what actually happens on the side of commodities. Obviously Bauer thinks even this discovery of Marx's has been superseded and lacks any contemporary relevance. So again I'd like to quote a solid bourgeois reporter from one of the business papers, who still defends this outdated conception even today. 'The most important precondition for an export of capital is always the commodity background that stands behind the movement of money. America's huge export of capital in 1924–1927 was ultimately an export of cotton (to help Central Europe rebuild her reserves), foodstuffs (to satisfy increased European demand) and finally [to a lesser degree, HG] an actual export of gold (partly to replenish Europe's gold reserves). Holland's export of capital was a means of cashing in on the raw material exports of her colonial empire (rubber)…Sweden's capacity to export capital has a different commodity background, it is based on an increase in timber exports', to which we might add the export of iron ore as well.[58]

It is not money capital but commodity capital that is expelled from the circuit of industrial capital, which only means that there is an *overproduction* of commodity capital that is unsaleable and which cannot therefore find its way back into production. Indeed, Bauer himself tells us that the export of capital creates an outlet for the sale of commodities. The confused conception of money capital that is extruded from the circuit of industrial capital and therefore flows to distant colonial countries by means of capital export, leaves the whole issue of export of capital as little explained as the theory that capital migrates as a result of differences in the level of the rate of profit. But: *satis supraque!*

b) Overaccumulation and export of capital in Marx's conception

Marx starts by citing the views of the classical economists, namely, J. B. Say and Ricardo. The latter defended the view that every amount of capital can be invested in a capitalist country without any limitation at all. There 'cannot, then, be accumulated in a country any amount of capital which cannot be employed productively'. [59] This is where Marx's critique begins. The proposition, Marx says, 'that any amount of capital can be employed productively in any country' is simply 'the form which Ricardo liked particularly' for Say's conception that 'demand and suppy are identical'.[60]

This view of Say and Ricardo is torn to pieces, with biting scorn and inexorable logic, in the chapter called 'Overproduction of commodities and overabundance of capital'.[61]

‘Ricardo’, Marx says, ‘is always consistent. For him, therefore, the statement that no overproduction of commodities is possible is synonymous with the statement that no…overabundance of capital is possible’.[62] The ‘stupidity of his successors’ is reflected in the fact that they ‘deny overproduction in one form (as a general glut of commodities in the market) and not only admit its existence in another form (as overproduction of capital…overabundance of capital) but actually turn it into an essential point in their doctrine’.[63]

The difference from McCulloch and the rest of the vulgar economists lies, in the instance of Marx’s successors, e.g., Varga, solely in the reversed sequence that characterises their contradictory assertions: in other words, they concede the overproduction of *commodities* and even ‘turn it into an essential point in their doctrine’ but deny the overproduction of *capital*, whereas Ricardo’s successors conceded the overproduction of capital but denied the same for commodities.

For Marx there could be no fundamental distinction between these, for he never stuck to the appearances of phenomena but on the contrary sought to penetrate to their core. Therefore he says, ‘Thus the only remaining question is: *what is the relation between these two forms of overproduction*, between the form in which it is denied and the form in which it is asserted? (In other words, where is) the nice distinction between overabundance of capital and overproduction’ (of commodities)?[64]

‘The question is, therefore, what is the overabundance of capital and how does it differ from overproduction (of commodities)?’ Here Marx lays into Ricardo’s successors with remarkable force: ‘According to the same economists, capital is equivalent to money or commodities. Overproduction of capital is thus overproduction of money or of commodities. And yet these two phenomena are supposed to have nothing in common with each other?’ ‘[T]he entire phenomenon resolves into one of overproduction of commodities, which they admit under one name and deny under another’.[65] ‘[A] thoughtlessness which admits the existence and necessity of a particular phenomenon when it is called A but denies it as soon as it is called B, and therefore showing scruples and doubts only about the name of the phenomenon…’.[66] In contrast to them, Marx notes that with overproduction one is dealing not simply with the overproduction of commodities as commodities but with the ‘fact that commodities figure here no longer in their *simple* determination but in their determination *as capital*’. ‘It is a question not merely of the simple relationship in which the product appears *as a commodity*, but of its social determination in which it is something *more than* and also different from a commodity’, in other words, capital.[67] In overproduction understood in this way ‘the producers confront one another not purely as owners of commodities but as capitalists’.[68] However, this only means that in the crisis it is that valorisation function of capital that is impaired; on the other hand, a capital that fails to valorise itself is a superfluous, overproduced capital. Overproduction of commodities and overproduction of capital are ‘the *same phenomenon*’. ‘Overproduction of capital and not of individual *commodities* – though this overproduction of capital always involves overproduction of commodities –

is nothing more than *overaccumulation of capital*.'[69] An overaccumulation of capital that lacks any chance of valorisation.

When does such an overaccumulation occur? Under what conditions? In the existing Marxist literature this question was never actually raised, let alone answered.

Lenin too fails to bring sufficient theoretical clarity to the problem of capital exports, even if he makes several acute observations on the subject. 'In the old type of capitalism, that of free competition, the export of *goods* was the most typical feature', says Lenin. 'In the modern kind, the capitalism of monopolies, the export of *capital* becomes the typical feature…On the eve of the 20th century we see a new class of monopolies coming into existence. First there are combinations of capitalists in all advanced capitalist countries: secondly, the monopolist position of a few rich countries, in which *the accumulation of capital reaches gigantic proportions*. *An enormous "excess of capital" becomes accumulated in the advanced countries*'.[70] The fact of the export of capital is related in this passage to the sheer wealth and massive accumulations of capital in the advanced capitalist countries, something that seems to be confirmed by empirical observations. Lenin displays more penetration when he goes on to underscore the close links between governments on one side and high finance and large-scale industry on the other, the latter concentrated in trusts and cartels. He sees those links as characteristic of the most recent phase of capital expansion, points to firms like Armstrong in England, Schneider in France and (before the war) Krupp in Germany, all of which 'have close connections with powerful banks and governments and which cannot easily be "ignored" when a loan is being arranged', and which succeed in dominating certain territories as their exclusive spheres of influence by using loans and the creation of colonial banks and their branches. In this way '[t]he countries exporting capital have divided the world in the metaphorical sense of the term'.[71]

However, this interesting description does not move beyond the purely empirical interconnections, in particular (and this may well be due to the popular character of the work, which set itself the task of 'describing the peculiarities of imperialism as briefly and simply as possible') there is no theoretical analysis of the facts that would explain why the export of capital becomes indispensable under advanced capitalism. Lenin simply confines himself to the suggestion that '[t]he necessity to export capital comes from the "overripeness" of capitalism in certain countries where (with agriculture backward and the masses impoverished) *room for "profitable" investment* is becoming scarce'.[72] What this 'overipeness' consists of and how it is reflected are not simply not explained by Lenin.

The heart of the problem of capital exports lies in showing why it is necessary and under what conditions it comes about. Marx's achievement and his theoretical advance over Ricardo were that he did precisely this.

If the migration of capital is regulated by the level of the rate of profit, then it presupposes that there are differences in the level of profitability. Marx showed the circumstances which determine and bring about a tendential fall in the rate of profit in the

course of accumulation. The question arises, how far can this fall go? Call the rate of profit *fall to zero*? Many theorists believe that only in such a case can we speak of an absolute overaccumulation of capital. As long as capital yields a profit, however small, we cannot speak of absolute overaccumulation, because the capitalist would rather be content with a small profit than have no profit at all and will therefore continue production as long as some profit accrues. 'It follows then from these admissions', says Ricardo, 'that there is…no limit to the employment of capital while it yields any profit'.[73]

I shall show that this idea is completely false, that there is a limit to the accumulation of capital and that this limit comes into force much *earlier than* a zero rate of profit . There can be absolute overaccumulation even with a relatively high yield on capital. The crux of the matter is not the absolute level of that yield but the ratio of the mass of surplus-value to the accumulated mass of capital.

So, on which conditions does the limit to the accumulation of capital depend? Empiricism is useless in the face of questions like this. In this case it fails completely, as it does in other areas of science. For example, in the use of fossil fuels, e.g. coal, the experience of almost a century has shown that it was always possible to obtain a greater quantity of heat from a given quantity of coal. Thus experience based on a practice of several decades might easily suggest that there is no limit to the quantity of heat that can be obtained through such increases. But only theory can answer the question whether this is really true or whether there isn't a maximum limit here beyond which any further increase in the quantity of heat obtainable is ruled out. This answer is possible because theory can calculate the absolute quantity of energy in a unit of coal. Increases in thermal output cannot exceed 100 per cent of the available quantum of energy. Whether this maximal point can actually be reached in practice is of no concern to theory. The determination of that limit by theory has considerable importance for our grasp of the actual processes. In economics, likewise, the determination of such points which define the limits beyond which the actual tendencies of development cannot pass is of the greatest significance: only they make it possible for us to have a general picture of the forces at work in the mechanism.

Starting from considerations of this sort Marx asks, what is 'overaccumulation' of capital? And his response is: 'To understand what this overaccumulation is…we have only to take it as absolute. When would the overproduction of capital be absolute?' According to Marx absolute overproduction of capital would occur when an expanded capital yields no more surplus-value than the smaller capital did. 'Thus as soon as capital has grown in such proportion to the working population that neither the absolute labour-time that this working population supplies nor its relative surplus labour-time can be extended (the latter would not be possible in any case in a situation where the demand for labour was so strong, and there was thus a tendency for wages to rise); where, therefore, the expanded capital produces only the same mass of surplus-value as before, there will be an absolute overproduction of capital.'[74] 'There would be an absolute overproduction of capital as soon as the additional capital that could be employed for the purpose of capitalist production = 0.'[75] 'The valorization of the old capital would have experienced an absolute decline.'[76]

To have a better sense of the conditions under which such a state of things is bound to come about, I propose to study the phenomena involved here by stages and, with Marx, first analyse the simplest case where population and labour productivity (technology) are held constant before going on to deal with the more complicated case of absolute overaccumulation with a growing size of population and growing productivity of labour.

1. Absolute overaccumulation of capital with population and technology held constant

'If we take a given working population, of 2 million for example, and further assume that the length and intensity of the average working day is given, as well as wages, and hence also the relationship between necessary and surplus labour, then the total labour of these 2 million workers *always produces the same magnitude of value*, and the same thing is true of their surplus labour, as expressed in surplus-value.'[77] 'With this presupposition [a constant value of labour-power, JB], the rate of surplus-value directly gives us the mass of surplus-value.'[78] On these assumptions capital accumulation runs up against a maximal limit which can be calculated exactly because the maximum amount of the mass of surplus-value obtainable is exactly given. It would make no sense to continue accumulation beyond this limit, because a larger capital would yield the same mass of surplus-value as the smaller capital did before. If accumulation were in fact continued it would necessarily bring about a devaluation of capital and a sharp fall in the rate of profit. 'In actual fact, the situation would take the form that *one portion of the capital would lie completely or partially idle* (since it would first have to expel the capital already functioning from its position, to be valorized at all), while the other portion would be valorized at a lower rate of profit…The fall in the rate of profit would be accompanied this time by an *absolute decline in the mass of profit*…[a]nd the reduced mass of profit would have to be calculated on an enlarged total capital.'[79] This would happen without any 'actual devaluation of the old capital'. This would be a case of the overaccumulation of capital 'since the capital is unable to exploit labour… at a level of exploitation that at least increases the mass of profit along with the growing mass of capital applied'.[80] Thus according to Marx this would be a case where '*more capital is accumulated than can be invested in production…This results in loans abroad, etc., in short, speculative investments*'.[81]

2. Absolute overaccumulation of capital with a growing population and changing technology (a growing organic composition of capital)

It would be wrong to conclude from what has just been said that absolute overaccumulation is only possible when population and technology are held constant. Using Bauer's scheme I have shown that it can and has to arise despite the two assumptions underlying the scheme, viz. (a) of a progressively higher organic composition of capital (advances in technology) and (b) of annual increases in population (by around 5%) including the assumption that capital *c* grows faster than the increase in population expressed by *v*. Under these conditions absolute overaccumulation does not set in immediately but only after a specific moment (*Stufe*) in the accumulation of capital. I showed (See Table 2) that from year 21 the capitalists could have no interest in

accumulating the surplus-value of 252,691 obtained in year 20 at the rate followed so far (10% for *c* and 5% for *v*), because a capital expanded at this rate would be too large to be valorised to the same degree given the size of the working population. Their personal share of the surplus-value, the *k* portion, would start falling (from 117,832 to 117,612). So instead of accumulating the surplus-value, that is, adding it to the main capital, *they will earmark it for capital exports*. So this is the moment that Marx has in mind when he says 'More capital is accumulated than can be invested in production…This results in loans abroad, etc.'. Since businessmen are not inclined to cut down on their own consumption, there will be a shortage of *a*, the portion earmarked for accumulation. By year 36 there has to be a reserve army of 11,509 workers and at the same time an excess capital of 117,174. The upshot of this is the situation described earlier (pp. 52–53 above): an excess of capital coupled with an excess of population. Marx illustrates this with the case of Britain in early 1867: 'At this moment, while English workmen with their wives and children are dying of cold and hunger, there are millions of English gold…being invested in Russian, Spanish, Italian and other foreign enterprises'.[82]

From this moment on accumulation, that is, the reconversion of a part of the profit into additional capital, runs into hurdles. The profit that is destined for accumulation 'cannot be directly used to expand business in the sphere of production in which the profit was made'. And this can happen '*because this sphere is saturated with capital*'. And soon after that Marx adds, '*if this new accumulation comes up against difficulties of application, against a lack of spheres of investment*, i.e. if branches of production are saturated and loan capital is over-supplied, this plethora of loanable money-capital proves nothing more than *the barriers of capitalist production*…an obstacle set up by its own *laws of valorization*, by the barriers within which capital can valorize itself as capital'.[83] Of course, the limits to accumulation are specifically *capitalist* limits, the limits of valorisation, and not limits in general. Social needs remain massively unsatisfied, and '[t]he resulting credit swindling demonstrates that there is no positive obstacle to the use of this *excess* capital'.[84] Yet from the standpoint of capital there is 'excess' capital because it cannot be valorised.

A structural transformation of capitalism gradually sets in from the moment just described. The more the capitalist class relies on capital exports, the more the bourgeosie 'is divorced from an active role in production', the more it develops into a parasitic rentier class, the 'more superfluous does it become, like the nobility in its time, a class that merely lives off revenues'.[85]

It is absolutely false to claim, as Luxemburg does with reference to the passage cited earlier from *Theories of Surplus-Value*, 'It is important to establish that his (Marx's) scheme veritably precludes the formation of such excess capital'.[86] It is false to argue as Luxemburg does that Marx's 'scheme contradicts the conception of the capitalist total process and its course as laid down by Marx in *Capital*, volume iii'.[87] The essential idea underlying *that* conception is the *immanent contradiction* between the drive towards an unlimited expansion of the forces of production and the *limited valorisation possibilities* of the overaccumulated capital. Precisely this is the necessary consequence of Marx's reproduction and accumulation scheme. Because Luxemburg transformed these limited

valorisation possibilities into a limited consumption capacity, she could obviously find no trace of the immanent contradiction that Marx refers to in the scheme. Against this Marx shows that 'the *valorization* of capital founded on the antithetical character of capitalist production permits actual free development *only up to a certain point*, which is constantly broken through by the credit system'.[88] The limit of overaccumulation, of insufficient valorisation, is broken through by the credit system, that is, by export of capital and the additional surplus-value obtained by means of it. In this sense the export of capital is an essential and characteristic feature of the late stages of accumulation: 'In the old type of capitalism, that of free competition, the export of *goods* was the most typical feature. In the modern kind, the capitalism of monopolies, the export of *capital* becomes the typical feature'.[89] The typical difference that Lenin underscores between the old and the new capitalism does in fact exist, but it bears no necessary causal relation to either competition or monopoly capitalism but is easier to explain in terms of differences between early and late phases of capital accumulation in any given capitalist country at a given stage in the evolution of its technology.

We should also take into the account the fact that the granting of foreign loans is consciously used to secure orders for industry at exaggeratedly high monopoly prices,[90] since the states that grant loans eliminate the competition of foreign competitors. Thus foreign loans are also designed to inject additional surplus-value into the domestic economy from countries elsewhere in the world and in this way surmount problems of imperfect valoriusation that plague the country in question.

So how does Rosa Luxemburg reconcile the fact of capital exports with her theory of the non-realisability of surplus-value within capitalism? She devotes a special chapter called 'International Loans' to this question.[91] Over some thirty pages she tells us how the capitalist countries of Europe export capital to the non-capitalist countries, how they build factories there, create a capitalist system and draw these countries gradually into their 'spheres of influence'. A whole twelve pages of this chapter (*The Accumulation of Capital*, pp. 429ff.) are devoted to 'the history of international lending to Egypt'. And what is proved by this whole discussion? Does she show how the surplus-value produced in the fully capitalist countries is 'realised' in the non-capitalist ones? Not a jot! What we learn on the contrary is how the fellaheen and other Asian, African, etc., peoples have to work long hours for low wages and how they are drawn into the capitalist nexus. In short, Luxemburg shows us not how the surplus-value produced under capitalism is *realised*, but how with the help of capital exports an *additional mass of surplus-value* is generated in the non-capitalist countries and brought back to the capitalist ones. The fact of capital exports is not only incompatible with Luxemburg's theory but stands in direct conflict with it. The export of capital bears no relation to the realisation of surplus-value and in this sense does not represent a problem of the sphere of circulation, but is on the contrary a problem that stems from the sphere of production and relates to the production of additional surplus-value abroad.

Had the export of capital been a means of realising the surplus-value produced under capitalism in non-capitalist countries, then the fact that capital is exported from one capitalist country to another *capitalist* country such as Germany would be an inexplicable

mystery. Germany does import capital from other countries, however, because this has nothing to do with the 'realisation' of surplus-value. The excess capital in the US, Holland or Sweden that is on the lookout for investment is exported to Germany because the German working class produces the surplus-value that pays the interest on this capital.

Quite apart from the other advantages of an external expansion of capital that I have listed previously, such as securing access to raw materials, lucrative concessions and so on, the true meaning of capital export lies in the fact that debtor countries are compelled to make tribute payments to their creditors. This is precisely what American financial expansion in Europe means. Scott Nearing and J. Freeman glimpse its essential aspect in the fact that 'the great nations of Europe are actual or potential tribute payers to the United States for at least two generations'; it is a matter of complete indifference whether these countries were victors in the world war who raised loans in the US during the war itself (officially there are 16 European countries that are debtors to the US) or contries like Germany that were vanquished and have fallen prey to the same fate, albeit in another form, viz. the Dawes Plan. The authors just cited call the corresponding section of their book 'Stripping economic rivals' and go on to say: 'This is the most complete modern system of exploitation ever devised and applied in the relations between great powers.'[92] The humongous capital accumulation of the US can only ensure its own valorisation and weaken the underlying breakdown tendency through large-scale and massive transfers of surplus-value from abroad.

(c) Inductive verification

If the theory propounded here is correct, it should not be that hard to test by looking at the actual phenomena. It would take me too far to have to provide extensive historical or statistical descriptions in this regard. On the contrary, all I can really do here is point to the most important patterns by adducing a few examples and doing so briefly.

I have proposed two sorts of arguments. First, that the valorisation of capital is the driving force of capitalism and governs all the movements of the capitalist mechanism, both expansion and contraction. Initially production is expanded because in the early stages of accumulation profit grows. Afterwards accumulation comes to a standstill because, at more advanced stages of accumulation and indeed due to the very process of accumulation, without the intervention of any other moments, profit necessarily falls.

As for the facts that are crucial to the validity of my theory, I am in the fortunate position of not having to adduce any empirical material of my own. I simply need to appeal to the works I have already cited – W. C. Mitchell's on the USA, J. Lescures' on France, and Stamp's on Great Britain – all of which show that periods of boom and recession are functionally connected with the level of profitability and that booms are a phase of expanding profit, recessions a phase when profitability is in short supply.

In the second place, however, the arguments I have propounded embrace much more than a mere attempt to explain fluctuations of the business cycle. I have tried to define the law

of motion of capitalism, its secular trend, or, in Marx's words, the *general tendency* of capitalist accumulation. I have shown how the course of capitalist accumulation is punctuated by absolute overaccumulation which appears from time to time in the shape of periodic crises that are of purely limited duration. Such overaccumulation becomes progressively more acute across the fluctuations of the economic cycle, from one crisis to the next, and finally, at advanced stages of accumulation, ends in a state of 'capital saturation' where the overaccumulated capital faces a shortage of investment possibilities, surmounting the 'saturation' becomes progressively more difficult and, for all these reasons, the capitalist mechanism approaches its final catastrophe with the inexorability of a natural process (*mit der Notwendigkeit einer Naturerscheinung*). The superfluous and idle capital can ward off a complete collapse of profitability only through the export of capital or by temporary 'deployment' on the stock exchange.

Now just as the real movement of the earth around the sun is not something that can be proved through direct observation, but is on the contrary negated by the apparent motion of the sun and was therefore misconceived and disputed for centuries together by the kind of science that simply sticks fast to surface appearances, so too is capitalism's general tendency to breakdown contested by the invocation of 'facts' by all those who see only the 'facts' but not their inner connections. A whole century after Copernicus various scholars contested the rotation of the earth with the argument that if that were true we would have to have an immediate perception of the vibration resulting from it. And sixty years after the appearance of Marx's *Capital* the breakdown tendency is contested with similar sorts of arguments, namely, that there has never been a direct perception of any such tendency. In thinking in this way one simply ignores the true function of science, viz. that the moment the breakdown tendency becomes something directly perceptible its prior determination in theory would become superfluous.

In the historical course of capitalist development the 'state of saturation' described above was not reached by individual countries all at the same time, because many countries were still more or less far removed from it. The earliest example of it was the stage reached by Holland already in the eighteenth century. England then reached the same stage in the 1820s and France by the 1860s. The USA joined this group more recently, after the world war. What follows is a brief summary of the essential features of this development…

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[1] W. Sombart, *Der Moderne Kapitalismus. Bd. 3. Zweiter Halbband: Der Wirtschaftsleben im Zeitalter des Hochkapitalismus* (Munich, 1927), p. 71.

[2] A. Sartorius von Waltershausen, *Das volkwirtschaftliche System der Kapitalanlage im Auslande* (Berlin, 1907), p. 51. — 'This', says Sartorius, 'is how France proceeded, systematically, in Tunisia. That country is today under its protectorate, after trade, railways, banking, and mining all fell into French hands…The economic influence over the importing country is then transformed into a political one…(and this) can finally lead even to territorial annexation'. (p. 50)

[3] Sombart, *Der Moderne Kapitalismus*, p. 42.

[4] When J. B. Say who defended the view that any amount of capital can be invested in a country, yet spoke of 'excess' capitals, Ricardo thought there was a contradiction there and asked, 'If capital to any extent can be employed by a country, how can it be said to be abundant?' (David Ricardo, *On the Principles of Political Economy and Taxation*, edited by R. M. Hartwell (Harmondsworth, 1971), p. 291).

[5] Ricardo, *On the Principles of Political Economy*, pp. 292n, 294.

[6] S. Schilder, *Die Entwicklungstendenzen der Weltwirtschaft* (Berlin, 1912) vol. 1, pp. 377–8, 383.

[7] J. A. Hobson, *Imperialism: A Study* (London, 1905), p. 48.

[8] Hobson, *Imperialism*, p. 50.

[9] Sartorius v. Waltershausen, *Volkwirtschaftliche System*, pp. 42ff.

[10] For A. Salz there is no problem about capital exports as such. He is uninterested by the question why capital is exported. He stands things on their head and states: 'From an empirical standpoint, the steady regular expansion of capital assets in an economy that is not static is necessary to…expansion of production in space (export of capital!)'. See A. Salz, A. 1925, 'Kapital, Kapitalformen, Kapitalbildung, Kapitaldynamik', *Grundriss der Sozialökonomik (Tübingen)*, IV/1 (1925), pp. 209–57, at 249.

[11] S. Nearing and J. Freeman, *Dollar Diplomacy: A Study in American Imperialism* (London, 1926), pp. 10ff.

[12] Nearing and Freeman, *Dollar Diplomacy*, p. 24.

[13] Nearing and Freeman, *Dollar Diplomacy*, p. 12.

[14] Jaffé too speaks of countries with a shortage of capital and others with capital saturation without specifying what this shortage or saturation is determined by. 'The most powerful expansion of economic activity occurs not in the countries that have the greatest capital resources but in countries like Germany and the USA which on the contrary suffer from a relative shortage of capital.' In such undeveloped countries profitability is at a maximum and the advances made in production greater than elsewhere. In the capitalistically most developed nations production advances more slowly. 'Capital saturation is in contrast the surest sign of an economy in which prospective entrepreneur profits have already been pushed down to a comparatively low level thanks to excessive competition.' A plethora of capital or 'saturation' is the result of 'excessive competition'! But what else does 'excessive competition' mean if not that there is more capital available than a given economy at a given moment can use profitably? (E. Jaffé, 'Der treibende Faktor in der kapitalistischen Wirtschaftsordnung', *Archiv für Sozialwissenschaft und Sozialpolitik,* 40/1 (1914), pp. 3–29, at 8.)

[15] E. Varga, *Die Wirtschaft der Niedergangsperiode des Kapitalismus nach der Stabilisierung* (Hamburg, 1928), p. 56.

[16] E. Varga, 'Kapitalexport in der Weltwirtschaft', *Die Internationale* 12 (1927) p. 363.

[17] Ricardo, *On the Principles of Political Economy*, Chapter 7.

[18] Bukharin, *Der Imperialismus und die Akkumulation des Kapitals* (Vienna and Berlin, 1926), p. 98; 'Imperialism and the Accumulation of Capital', in Rosa Luxemburg and Nikolai Bukharin, *Imperialism and the Accumulation of Capital*, tr. Rudolf Wichmann (London, 1972), p. 243.

[19] M. I. Nachimson, *Imperialismus und die Handelskriege. Eine volkswirtschaftliche Untersuchung über die Entwicklungstendenzen der modernen Wirtschaft und der Handelspolitik* (Bern, 1917), p. 81.
[20] F. Sternberg, *Der Imperialismus* (Berlin, 1926), p. 35.
[21] R. Hilferding, *Das Finanzkapital*, (Vienna, 1923), p. 395; *Finance Capital: A Study of the Latest Phase of Capitalist Development*, tr. Morris Watnick and Sam Gordon (London, 1981) pp. 314–15.
[22] H. Grossmann, 'Eine neue Theorie über Imperialismus und die soziale Revolution. (Zu Fritz Sternberg, *Der Imperialismus*, Berlin 1926)', *Archiv fur die Geschichte des Sozialismus und der Arbeiterbewegung,* 13 (1928),pp. 141–92.
[23] Hilferding, *Finanzkapital*, p. 318; *Finance Capital*, p. 256.
[24] Hilferding, *Finanzkapital*, p. 396; *Finance Capital*, p. 315.
[25] O. Bauer, *Die Nationalitätenfrage und die Sozialdemokiatie*, Second edition (Vienna, 1924), p. 470; *The Question of Nationalities and Social Democracy*, tr. Joseph O'Donnell(Minneapolis, 2000), p. 377.
[26] Bauer, *Nationalitätenfrage*, p. 471; *The Question of Nationalities*, p. 378; tr. modified.
[27] Bauer, *Nationalitätenfrage*, p. 481; *The Question of Nationalities*, p. 385.
[28] Bauer, *Nationalitätenfrage*, p. 470; *The Question of Nationalities*, p. 377.
[29] As a matter of fact, Bauer too speaks not of 'legal conditions' but of the fact that '[p]rotected by the instruments of state power, the capital of the dominant country in the first place flows into these colonial territories' (*Nationalitätenfrage*, p. 469; *The Question of Nationalities* p. 376).
[30] Already in his day Marx in a letter to Nicolaion [N. F. Danielson] dated 15 November 1878 would say about the United States of America: 'Transformations that required centuries in England's case are being realised here in a few years.'
[31] K. Krüger and G. R. Poschardt, *Die Erdölwirtschaft der Welt*, (Stuttgart, 1926), p. 237.
[32] Krüger and Poschard, *Erdölwirtschaft*, p. 466.
[33] Krüger and Poschard, *Erdölwirtschaft*, p. 473.
[34] A. Reichwein, *Die Rohstoffwirtschaft der Erde*, (Jena, 1928), pp. 572, 527.
[35] Reichwein, *Rohstoffwirtschaft*, p. 569.
[36] Bauer, *Nationalitätenfrage*, p. 462; *The Question of Nationalities*, p. 371; tr. modified.
[37] Bauer, *Nationalitätenfrage*, p. 470; *The Question of Nationalities*, pp. 376–7.
[38] Bauer, *Nationalitätenfrage*, p. 471; *The Question of Nationalities*, p. 378.
[39] Marx, *Capital, Volume Two*, tr. by David Fernbach, (Harmondsworth, 1978), p. 180.
[40] Marx, *Capital, Volume Two*, p. 181.
[41] Marx, *Capital, Volume Two*, p. 181.
[42] Marx, *Capital, Volume Two*, p. 133.
[43] Marx, *Capital, Volume Two*, p. 165.
[44] Marx, *Capital, Volume Two*, p. 183.
[45] Marx, *Capital, Volume Two*, p. 183.
[46] Marx, *Capital, Volume Two*, p. 429.
[47] Marx, *Capital, Volume Two*, p. 433.

[48] Marx, *Capital, Volume Two*, p. 430.
[49] Marx, *Capital, Volume Two*, p. 209.
[50] Marx, *A Contribution to the Critique of Political Economy* (Moscow, 1970), p. 147; tr. modified.
[51] Bauer, *Nationalitätenfrage*, p. 476; *The Question of Nationalities*, p. 381.
[52] Bauer, *Nationalitätenfrage*, p. 462; *The Question of Nationalities*, p. 371; tr. modified.
[53] Bauer, *Nationalitätenfrage*, p. 463; *The Question of Nationalities*, p. 372; tr. modified.
[54] Bauer, *Nationalitätenfrage*, pp. 471–2; *The Question of Nationalities*, p. 378; tr. modified.
[55] A. Weber, *Depositenbanken und Spekulationsbanken. Ein Vergleich deutschen und englischen Bankwesens*, Second edition (Munich, 1915), p. 213.
[56] Bauer, *Nationalitätenfrage*, p. 476; *The Question of Nationalities*, p. 381; tr. modified.
[57] Bauer, *Nationalitätenfrage*, p. 481; *The Question of Nationalities*, p. 385; tr. modified.
[58] Herrmann, *Berliner Tageblatt*, 6 November 1927.
[59] Ricardo, *On the Principles of Political Economy*, p. 291.
[60] Marx, *Theories of Surplus Value Part 2* (Moscow, 1968), p. 493.
[61] Marx, *Theories of Surplus Value Part 2*, p. 496ff.
[62] Marx, *Theories of Surplus Value Part 2*, pp. 496–97.
[63] Marx, *Theories of Surplus Value Part 2*, p. 497. Elsewhere Marx refers to 'the singular phenomenon that the same economists who deny overproduction of commodities admit overproduction of capital' (Marx, *Capital, Volume Three*, p. 365).
[64] Marx, *Theories of Surplus Value Part 2*, pp. 497–98.
[65] Marx, *Theories of Surplus Value Part 2*, p. 498.
[66] Marx, *Theories of Surplus Value Part 2*, p. 499.
[67] Marx, *Theories of Surplus Value Part 2*, p. 498; tr. modified.
[68] Marx, *Theories of Surplus Value Part 2*, p. 498.
[69] Marx, *Capital, Volume Three*, tr. by David Fernbach (Harmondsworth, 1981), p. 359.
[70] Lenin, *Imperialism: The Last Stage of Capitalism* (London, 1926), pp. 61–2.
[71] Lenin, *Imperialism*, p. 67.
[72] Lenin, *Imperialism*, p. 63; tr. modified.
[73] Ricardo, *On the Principles of Political Economy*, p. 296.
[74] Marx, *Capital, Volume Three*, p. 360.
[75] Marx, *Capital, Volume Three*, p. 360; tr. modified. — In Marx's conceptual definition of absolute overaccumulation it is by no means essential that profit should disappear on the total capital. In a purely theoretical sense, it disappears only for the additional accumulated capital. At a pratical level, things are quite different. The additional accumulated capital will displace a portion of the old capital from existing spheres of investment, and this will result in a lower rate of profit on the total capital. However, as long as a falling rate of profit is usually bound up with a growing mass of profit, it is characteristic of absolute overaccumulation that in this case the mass of profit on the expanded total capital remains *the same*.

[76] Marx, *Capital, Volume Three*, p. 361.
[77] Marx, *Capital, Volume Three*, p. 323.
[78] Marx, *Capital, Volume One*, tr. by Ben Fowkes, (Harmondsworth, 1976), p. 417.
[79] Marx, *Capital, Volume Three*, p. 360.
[80] Marx, *Capital, Volume Three*, p. 364.
[81] Marx, *Theories of Surplus Value Part 2*, p. 484.
[82] *Reynolds' Newspaper*, 20 January 1867, cited Marx 1976, p. 823, n. 71.
[83] Marx, *Capital, Volume Three*, p. 639.
[84] Marx, *Capital, Volume Three*, p. 639 — This is also the sense in which we should understand another passage where it is stated: ' If capital is sent abroad, this is not because it absolutely could not be employed at home'. (Marx, *Capital, Volume Three*, pp. 364–5) — When Bukharin insists that in Marx 'one can only speak of a *relative* over-production' (Bukharin, *Imperialismus und Akkumulation*, p. 77; 'Imperialism and the Accumulation of Capital', p. 224), that is wrong and stems from the double meaning of the word 'absolute'. In relation to social needs overproduction is naturally not absolute but relative. But the capitalist crisis that flows from overaccumulation is an *absolute* crisis, because the maximal limit of accumulation is given by the magnitude of the available mass of surplus-value.
[85] F. Engels, *Anti-Dühring* (Marx-Engels, *Collected Works*, vol. 25) (London, 1987), p. 153; tr. modified.
[86] R. Luxemburg, *Die Akkumulation des Kapitals* (Berlin, 1913), p. 312; *The Accumulation of Capital*, tr. Agnes Schwarzschild (London, 1963), p. 342; tr. modified.
[87] Luxemburg, *Die Akkumulation des Kapitals*, p. 313; *The Accumulation of Capital*, p. 343; tr. modified.
[88] Marx, *Capital, Volume Three*, p. 572.
[89] Lenin, *Imperialism*, p. 61 — or, as Schulze-Gaevernitz says, Britain 'grew into the figure of a creditor state…The creditor state gradually foregrounded itself over against the industrial state. At any rate, Great Britain's income from loans would soon overtake its net revenue from total foreign trade by a factor of several times. In 1899 Giffen estimated…the net revenue from imports and exports at £18 million, whereas provisional estimates put the interest from foreign loans already at £90 to £100 million. Moreover, the latter has been growing rapidly'. (Schulze-Gaevernitz, *Britischer Imperialismus und englischer Freihandel zu Beginn des zwangzigsten Jahrhunderts* (Leipzig, 1906)p. 321.)
[90] Examples of this can be found in Schilder, *Entwicklungstendenzen*, vol. 1, pp. 345ff.
[91] Luxemburg, *Die Akkumulation des Kapitals*, pp. 394–423; *The Accumulation of Capital*, pp. 419ff.
[92] Nearing and Freeman, *Dollar Diplomacy*, pp. 225, 231.