

# The cause of capitalist crises

Nick Beams  
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Dear Mr. Beams

I thought that your piece about the underlying causes of the Enron Crisis was right on target, but the Marxian roots are very difficult to communicate to the average reader, including me. This surplus value capital expansion talk makes my mind wander and my eyes roll. For me, Henry Ford's insight in the 1920s that he had to pay his workers more so that they could afford to buy his Fords is a better explanation. If capitalists extract too much profit, they destroy the ability of employees to buy.

I wish that Marxists would use language and examples that we can use to communicate to others.

DP

Dear DP,

While I can appreciate that you find the analysis of surplus value and capital accumulation difficult to follow, and that my explanations may not always be as clear as they could be, this does not mean that we should try to substitute a "simplified" analysis. There is, as Marx put it, no royal road to science and if the essence of matters corresponded to how they appear there would be no need for science at all.

The importance of this approach is underscored by your remarks on Henry Ford who claimed that he paid his workers higher wages so they could buy back his cars. You write: "If capitalists extract too much profit, they destroy the ability of employees to buy."

This explanation of the crises of capitalism forms the basis of the so-called underconsumptionist theories. It does seem to accord better with the "realities" of the capitalist system than complex explanations of value, labour power, surplus value, organic composition of capital, the falling rate of profit and the other categories whose complex interaction form the basis of a Marxist analysis.

The underconsumptionist explanation seems quite obvious and straightforward: since the expenditure of

workers forms the final market for the commodities produced by capitalist firms, if wages are too low and profits too high workers will not be able to buy back the goods they have produced and capitalists will not be able to realise their profits.

The problem with such explanations is that they are wrong. The value of the commodities produced by the capitalist firm embodies the surplus value extracted from the workers in the process of production. The value of the labour power that the worker sells to the capitalist (expressed in its monetary form as wages) is always less than the value added by the worker in the course of the working day. This is a **permanent** condition of capitalist production and cannot be invoked to explain the development of a crisis. Indeed, without it there would be no profit, and no accumulation of capital.

The question that has to be answered is how markets are cleared of commodities and yet surplus value is continually extracted from the workers who produce them. The answer lies in the fact that the demand for commodities does not solely comprise the consumption of workers. There is also the productive consumption of capitalist firms. This productive consumption comprises the replacement of the existing means of production plus the purchase of additional means of production (new investment) financed out of the profits which capital has extracted from the working class. This creates a demand for the production of raw materials, machinery etc., other capitalists employ workers to produce them, these workers in turn spend their money on consumption goods, clearing the markets in this sector and so on.

Markets will continue to be cleared in this way and profits realised, so long as sufficient surplus value is extracted from the working class. But if the rate of profit starts to decline, then investment falls, demand drops, less workers are employed, demand for

consumption goods declines and a crisis develops. It is only resolved when measures are undertaken which increase the rate of profit once again.

We do not have the space here to go through the operations of the business cycle and the longer-term tendencies of capitalist production.

The point I want to emphasise at this point is the following: contrary to the appearances of everyday life, it is not too much profit which causes a crisis for capitalism but rather too little.

Herein lies the significance of Henry Ford and the assembly-line production methods he introduced. These methods vastly increased the productivity of labour and the rate at which surplus value was extracted from the working class. The extension of these methods through the major capitalist countries in the post-war period formed the basis of the post-war boom. Contrary to the underconsumptionist thesis, it was precisely in the post-war boom that profit rates were at their highest.

The crisis of capitalism today has its source in the pressures produced by the tendency of the rate of profit to fall and the inability of capital, despite its most strenuous efforts, to develop a new regime of production that can lift the profit rate the same way assembly-line production did.

As for Henry Ford's claim that he paid his workers higher wages so that they could buy back the cars they produced, it should be noted that Ford was always a good propagandist in his own cause. The real reason for the higher wages was that assembly-line production was so much more arduous than anything which had gone before. As a result labour turnover was so rapid it was difficult to keep a workforce. This was why Ford increased wages in the 1920s. However such was the increase in the rate of exploitation resulting from the new methods that he was still able to make above average profits.



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