Summary: A discussion — in light of the Great Recession and of current debates over economic crisis and its causes — of Henryk Grossman’s 1929 critique of Rosa Luxemburg’s thesis in *Accumulation of Capital* that overproduction is the cause of crises, and Grossman’s (and Raya Dunayevskaya’s) defense of Marx’s notion of the tendential fall in the rate of profit - Editors

**Henryk Grossmann vs. Rosa Luxemburg on the Causes and Meaning of Economic Crises — Not Just History**

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“Actually the function of competition is not constitutive of value, but merely declaratory. It determines not the necessary social labour time, rather defines this only afterwards. Competition is namely going on in the market, thus within the sphere of circulation. Value, however, is created in the production process, is thus going on before all competition.”  -- Henryk Grossmann

In present-day discussions and debates within Marxism about crisis theory we frequently come across the names of Rosa Luxemburg and Henryk Grossmann. Although Grossmann’s criticism of Luxemburg’s notions of accumulation of capital and crisis is a historical moment (about 90 years ago), elements of his criticism and the notions of Luxemburg continued to play a role in the debates about crisis in capitalist society afterwards and still do today in debates about the crisis. This is what makes their theories about accumulation of capital and crisis interesting for us. That is why I will stress here the essential elements of their theories about the accumulation of capital and crisis in capitalist society. I will restrict myself in this article to just this issue and only at the end of it will I make some allusions to the debates of today.

The notions of Grossmann and Luxemburg have their foundation in their differing assessments of Marx’s theory of crisis, as developed in Capital.

Some statements in recent publications by Ingo Schmidt about their theories of accumulation and crisis in capitalist
society provide us with an introduction to what is at stake in their notions.

In an essay by Schmidt, “Rosa Luxemburg’s ‘Accumulation of Capital’: New Perspectives on Capitalist Development and US Hegemony,” \(^1\) we read (p.102) the following about the theoretical notions of Grossmann and Luxemburg’s theory of the accumulation of capital and crisis in capitalist society:

“Henryk Grossmann, working at Frankfurt’s famous Institute for Social Research at the time but also being a member of the communist party, picked up Bauer’s critique of Rosa Luxemburg, which he fully endorsed, and developed a supply-side argument for capitalist breakdown out of his critique (Grossmann 1929, chapters 2.3 & 2.16). In Grossmann’s theory it was not the lack of non-socialist [surely an error here; it has to be “non-capitalist” — K.L.] environments and effective demand, as in Luxemburg’s analysis, but the lack of investible surplus that was the reason for collapse. The publication of his book in 1929 couldn’t have been more timely, even though his arguments were refuted by a capitalist system awash with money seeking profitable investments but short of effective demand (Sweezy 1942, chapter XI.10).”

And in Rosa Luxemburgs “Akkumulation des Kapitals” (Accumulation of Capital), \(^2\) a book he has recently published, Schmidt writes (p. 14): “The criticism [against Luxemburg—K.L.] of the communists Bukharin and
Grossmann was just as sharp and firmly rested on a mixture of theoretical objections and of keeping a distance from the political consequences out of Luxemburg’s analysis.”

For a more positive interpretation of Grossmann’s work Schmidt refers to Rick Kuhn’s *Henryk Grossman and the Recovery of Marxism.* Another more positive interpretation of Grossmann can be found in Raya Dunayevskaya’s letter of October 11, 1957 to Herbert Marcuse. In this letter she writes she is engaging herself “…to trace briefly the American roots of Marxism.” She states:

“I use the structure of *Capital* to illustrate this. The changes in the structure of this work meant nothing to the Second International, reformist and revolutionary wings alike. Until Rosa Luxemburg, in 1913, began to question what Engels ‘had made out’ of the material left him by Marx, all Marxists treated the changes in the structure as a ‘literary question’. …The battle of quotations with which Rosa Luxemburg was attacked, both by the Second and Third Internationals, never went into the structure of *Capital* until Henryk Grossman, in 1929. His was the first serious analysis of the changes in the structure. However, his interest was primarily economic; it was directed against Luxemburg's underconsumptionism and the reestablishment of the decline in the rate of profit as central to the theory of accumulation in its Marxist form.”

Because the “philosophical working out” by Dunayevskaya in her criticism here is outside the context “Grossmann
versus Luxemburg,” I leave it aside. (See, however, note 10, where I refer to Dunayevskaya’s “New Thoughts on RLWLKM.”)

In what follows we will first deal with elements that Luxemburg discerns in Marx’s notion of the accumulation of capital and her thinking regarding the structure of Capital.

In the Anti-Critique she answers the criticisms she received after the publication of her Accumulation of Capital. In analysing these criticisms she resumes her notions about the accumulation of capital in her book and makes statements about the internal structure of Marx’s Capital.

We need, however, to keep in mind here that the Grundrisse was not known in Luxemburg’s time and the Theories of Surplus Value only existed in the version edited by Kautsky between 1905 and 1910.

On page 68 of the Anti-Critique Luxemburg writes:

“Marx investigated the internal mechanism of capitalist accumulation and established certain economic laws on which the process is based. He started roughly like this: if the accumulation of gross capital, that is, in the entire class of capitalists, is to take place, then certain quite exact quantitative relations must exist between the two large departments of social production: the production of means of production and the production of means of consumption. Progressive expansion of production and, at the same time,
progressive accumulation of capital— which is the object of it all— can only proceed unhindered if such relations are maintained so that the one large department of production continuously works hand- in- hand with the other.”

In her *Accumulation of Capital*, chapter V, Luxemburg writes about Marx’s notion of the two departments—means of production and means of consumption— and criticises this division into only two departments (p. 100):

“Here, however, we deviate from Marx. He included the production of gold (...) in the first department of social production. ‘The production of gold, like that of metals generally, belongs to department I, which occupies itself with means of production’ [Marx in *Capital* Volume 2, Kerr edition 1907, p.548] (...) But gold in its capacity as money is not a metal but rather an embodiment of social labour in *abstracto*. Thus it is no more a means of production than it is a consumer good. Besides, a mere glance at the diagram of reproduction itself shows what inconsistencies must result from confusing means of exchange with means of production.”

Luxemburg decided therefore to create a third department, one consisting of gold as a tool for the exchange of commodities.

In her *Anti-Critique* she pointed to the fact that Marx assumed in his analysis and schema of the accumulation process in *Capital* Volume 2 a capitalist society in which
only two classes exist: capitalists and workers (see p.58). And she proceeds by saying that this assumption constitutes for her the crux of the problem in Marx’s conception of the accumulation of capital (p.58):

“You can twist and turn it as you wish, but so long as we retain the assumption that there are no other classes but capitalists and workers, then there is no way that the capitalists as a class can get rid of the surplus goods in order to change the surplus value into money, and thus to accumulate capital.”

The way out of this problem in Marx, according to Luxemburg, is to be found only in the non-capitalist environment. From the beginning of capitalist production, and especially since capitalist mass production, this way of producing depends on consumers and producers of a non-capitalist milieu (p. 59):

“So there must develop right from the start [of capitalist production— K.L.] an exchange relationship between capitalist production and the non-capitalist milieu, where capital not only finds the possibility of realizing surplus value in hard cash for further capitalization, but also receives various commodities to extend production…”

Luxemburg’s time was the period in which the rise and development of imperialism was taking place. She was looking for an explanation of this phenomenon and did not doubt that (p.61) “the explanation for the economic roots of
imperialism must be deduced from the laws of capital accumulation…”

Her assessment of Marx’s notion of capital accumulation was that Marx (p. 62) “…only posed the question of the accumulation of gross capital, but his answer went no further. (…), he also broke off at just this central question.”

Marx constructed, she said, some mathematical models -- the famous diagrams we find in Capital Volume 2 -- in order to illustrate his conception of the accumulation of capital, but he could not work out his conception and these diagrams, because sickness and death stopped him writing. So, she said (p.62):

“It was clearly left to his pupils to solve this problem (like many others), and my Accumulation was intended as an attempt in this direction.”

As to the structure of Marx’s Capital it was for her (p.64) “…a fact that there are blatant contradictions between the premises of the short fragment at the end of the second volume, where Marx deals with accumulation, and the illustrations of the third volume, where he describes the ‘total movement of capital.’ The same is true of many important laws in the first volume, which I refer to in detail in my book.”

This statement of Luxemburg has an enormous relevance for Marxism, because it concerns the coherence and totality of Marx’s Capital.
One can find the criticism of Grossmann against Luxemburg on all these elements which she discerned as mistakes or wrong assumptions in Marx’s conception of the accumulation of capital and crisis above all in his book, *Das Akkumulations- und Zusammenbruchgesetz des kapitalistischen Systems* (1929), and in two articles, “Die Wert- Preis- Transformation bei Marx und das Krisenproblem” (WPT) and “Die Goldproduktion in Reproduktionsschema von Marx und Rosa Luxemburg” (GR) (both 1932).⑦

When we follow the analysis of the work of Luxemburg by Grossmann it is important to keep in mind one of the central assumptions of Marx in *Capital*, Volumes 1 and 2: all commodities are exchanged at their values. Grossmann emphasizes this tirelessly.

The first remark Grossmann makes against Luxemburg is on the nature of Marx’s diagrams in *Capital*, Volume 2. Luxemburg, and this holds too for all the critics she answers in her *Anti-Critique*, takes these diagrams with their mathematical models as an exact copy of the capitalist reproduction process instead of, as in Marx, as a tool in order to approach reality. (See WPT, p. 63) Grossmann formulates it as follows (WPT, p. 64):

“The relations of the schema of values are for both [Luxemburg and Bauer— K.L.] not just the first stage in the procedure of successive approximation as in Marx, but they reflect reality directly.”
What does this mean for the analysis of crisis, asks Grossmann? If commodities are exchanged according to their values, then there are no prices of production, and there is no average rate of profit. The conclusion has to be that in the different branches there are different profit rates and there is no competition between capitalists. Although Luxemburg speaks of an average profit and of the guiding role it plays in the empirical reality, it does not figure in her further analysis of the accumulation of capital and of crisis (See WPT pp.67, 68). On the contrary, says Grossmann (p.66):

“Despite that [speaking of the average profit rate and its guiding role—K.L.] she traces the question whether a complete exchange is possible, in the context of a schema that does not know an average profit. Can one imagine a bigger contradiction?”

The tendency of the equalization of the profit rate in capitalist society, according to Grossmann, is an observation confirmed by experience over a century [Grossmann 1932—K.L.] by theoreticians of different strands. He thinks in this context of Ricardo, Malthus, Böhm- Bawerk and Marx. (See WPT, p. 70). But the greatness of Marx was (WPT, p. 71):

“He was able to understand and explain from the law of value the fact of the equal profit rate, which prima facie contradicts the labour theory of value by his doctrine of the divergence between the prices of production and the values.”
According to Grossmann, Luxemburg negates, despite all the historical experience of capitalism, the possibility of the transfer of a part of surplus value out of department II (means of consumption) to department I (means of production). She remains fixated on the notion that the exchange of commodities is at their values in the distinct branches. Moreover, Luxemburg does not acknowledge the preponderance of constant capital over variable capital and sees them as of one level. In this notion of Luxemburg, one of the specifics of capitalist production disappears, “for which production is an aim in itself and individual consumption merely a subsidiary condition.” In this way, says Grossmann, Luxemburg negates the total content of Capital Volume 3. She is not capable of explaining, out of the labour theory of value, the average rate of profit and the constitution of prices of production. In the opinion of Grossmann, Luxemburg actually abandons the foundation of Marx’s theoretical system. (See WPT, p.71)

As to the third department which Luxemburg introduces in the accumulation schema the criticism of Grossmann is devastating (GR, p.81):

“Would Marx really have confused so essential notions as means of exchange and means of production.”

Grossmann refers here to Marx’s assumption in Capital, Volume 2 that gold, just like the other metals, is produced, and in this way is part of the department of the means of production. (See GR, p.81) Marx assumed too that gold as
luxury good already was part of the department of the means of consumption.

Grossmann is not explicit about what is enclosed here in Marx’s notion, but it is easy to reveal. For Marx, gold, which has been produced, is a commodity that has value. It is a commodity like all other commodities. Gold as commodity is not a means of circulation. Then there is no need for a third department.

When gold becomes money, it becomes a ‘token of value’ and thus has no value. Here too there is no need of a third department.

Grossman finds it bizarre that Luxemburg gives in the first instance the accumulation schema an objective existence and later on holds that this schema misses a department for the means of exchange. (See GR, p. 82)

Grossmann conceives of Luxemburg’s notion of accumulation of capital and crisis in capitalist society as based upon her misunderstanding of the content of *Capital* and the methodological principles Marx used. His conclusion becomes very clear in a passage of his 1929 book, where he writes:

“Capitalism is dominated by a blind, unlimited thirst for surplus value. According to the interpretation Luxemburg gives it would appear as if the system suffers from an excess of surplus value. Such a theory is quite illogical and self contradictory in terms of trying to understand the most
important and peculiar function of capital, the function of valorisation. The whole matter is quite different in the interpretation I have given. The capitalist mechanism falls sick not because it contains too much surplus value, but because it contains too little. The valorisation of capital is its basic function and the system dies because this function cannot be fulfilled.... The Marxian theory of crises can account for recessions and their necessary periodic recurrence without having to invoke special causes.”

Marx roots the breakdown of capitalist society, Grossmann states, “in the fact that the capitalist mechanism is regulated by profit and at a certain level of capitalist accumulation there is not enough profit to ensure valorisation of the accumulated capital.”

From this we can see that Grossmann is the first Marxist after Marx to give the law of the tendential fall of the rate of profit the central place in the theory of crisis in capitalism.

His remarks concerning the notions of Luxemburg about the accumulation of capital and crisis are the beginning of a debate which is raging fiercely in Marxism at the moment about the law of the tendential fall of the rate of profit as the basis of the crisis. The theoretical working out and the empirical tracing of this law is ongoing.

I will illustrate the importance of this debate for the labour movement, and thus also the beginning of this debate, with two points.
The first one is the issue of underconsumption. If underconsumption were the cause of the crisis, it could be said roughly that higher wages can avoid the crisis. But at the same time higher wages mean also lower profits. And secondly it encloses a notion that you can in this way avoid crisis in capitalist society. Such a conception is in the words of Carchedi\(^9\) a disastrous notion for the labour movement (pp. 136, 137):

“If the system tends (or can be made to tend) towards prosperity and growth, even if through economic cycles with periods of depressions and crises, the system is rational.”

With this notion it would be senseless for the labour movement to struggle against capitalist society, because it is rational. Or, in other words (p.137):

“Labour is deprived of the theoretical basis upon which to base its struggle. This is the class content of underconsumptionism. Underconsumptionism is not only irreconcilable with Marxism, it is also (and for this reason) deeply inimical to labour.”

A way out of this problem, which the theory of underconsumption provides, seems to be the theory of “overproduction.” Those who have developed this theory—Luxemburg is one of them—assume that the growth of the Organic Composition of Capital results in overproduction, because in their notion a disproportionate increase in constant over variable capital means that the production of
commodities grows more quickly than people’s purchasing power. This argument, however, remains basically underconsumptionist.

A second issue concerns what Dunayevskaya criticises Luxemburg for (p. 45): missing “the dialectics both as movement of liberation and as methodology.”  

Accumulation of capital is, in the notion of Luxemburg, as we saw, dependent on a non-capitalist environment. This means that an outside force will bring about the downfall of capitalism. (See p.45) As to this aspect Dunayevskaya and Grossmann agree completely. Dunayevskaya writes (p.45): “The question theoretically is: does the solution come organically from your theory, or is it brought there merely by ‘revolutionary will’.”

And as Grossmann writes about this aspect in Luxemburg (See note 7):

“Her own deduction of the necessary downfall of capitalism is not rooted in the immanent laws of the accumulation process, but in the transcendental fact of an absence of non-capitalist markets. Luxemburg shifts the crucial problem of capitalism from the sphere of production to that of circulation.”

In all the differences between the notions of Grossmann and Luxemburg about accumulation of capital and crisis in capitalist society, we can conclude that the way by which they came to their results has its foundation in the method of
how they analyse value and the transformations of value. One could say that their differences lay in a different notion of the value dimension in Marx’s dialectic.

NOTES

1. In: Socialist Studies/ Études Socialistes 6(2) Fall 2010, 92-117.
7. For the quotation in this article I used the English translation found in the Marxist Internet Archive: https://www.marxists.org/archive/grossman/1929/breakdown/ This translation is not always optimal and it is, moreover, an abridged version. Both articles are found

8. See note 7.


10. Chapter III from: Raya Dunayevskaya. *Rosa Luxemburg, Women’s Liberation, and Marx’s Philosophy of Revolution. Second edition*. University of Illinois Press. Urbana and Chicago 1991. I emphasize “second edition”, because this edition contains “New Thoughts on RLWLKM”, in which she returns to her discussion with the notions of Luxemburg about accumulation of capital and crisis. In chapter III Dunayevskaya wrote about the new events [the phenomena of imperialism—K.L] which Luxemburg called “reality” and which she contrasted to Marx’s theory. Luxemburg could do this “because she failed to fully work out dialectic methodology — which would have revealed a single dialectic in both objective and subjective worlds.” In her “New Thoughts” (pp.xxxiv, xxxv) Dunayevskaya refers to Hegel’s *Phenomenology of Mind* and the *Philosophy of Mind* as to reality and theory in Luxemburg by writing: “Rather, the dialectic in the Notion is that the Absolute there opens so many new doors in both the objective and subjective spheres as to reveal totality itself as a new beginning. Thus, against the phenomenology of imperialism being merely a reflection of new surfacings of oppression, new appearances surface as
so profound a philosophy of revolution as to disclose that what inheres in it is a living Subject that will resolve the great contradiction of its absolute opposites, imperialism and national oppression. It is this which Marxist-Humanists call the new revolutionary forces as Reason. Therein is the nub of the Great Divide between *Phenomenology* and *Philosophy*— and because it is no abstraction, but a live Subject, *it unites rather than divides theory and reality.*” This conception of Dunayevskaya resulted in her statement about Marx’s notion of accumulation as against the one of Luxemburg in chapter III, already present in the first edition (p.37): “Far from being only a phenomenological analysis of his age, Marx’s theory was so profound a dialectic of accumulation that, at one and the same time, it disclosed the different forms of revolt and how they revealed the logical development to the point where no alteration in exchange or distribution could fundamentally change anything.”