

MARX AND THE CRISIS.

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ABSTRACT.

My paper argues that Marx's economics leads us to a deeper understanding of our current crisis than either mainstream, Keynesian or 'mainstream Marxist' economics. Firstly, Marx explains how a tendency for the rate of profit to fall in boom manifests in the generation and speculative investment of 'surplus capital' in the financial system/fictitious capital, providing a tendential basis for, rather than an accidental account of, financial bubbles/crises. Secondly, Marx's understanding that crisis is absolutely necessary to restore the profit rate, and so return the economy to boom, explains why developed countries' governments' attempts to postpone/limit crises since the 1970's have merely preventing a decisive enough crisis to restore the profit rate. Persistently low profitability has caused the world economy to stagnate, with persistently surplus capital taking many disruptive adventurous paths. Finally, Marx's identification of when lending is 'lending' and when it is simply 'usury' can help us understand how the nature of the financial system has changed over the last 40 years.

INTRODUCTION – PURELY A FINANCIAL PROBLEM.

Economics is an easy game if you don't want to look into things too deeply and are happy to conform to what is expected of you. Economists as the mysterious high priests of capitalism (Potts, 2005) are responsible for the 'word' rather than the 'flesh'. No matter that the economics profession failed to predict the crisis, their reconfirmation of the supremacy of the market has fitted politicians' and businesses' desire since the end of the Golden Age in the early 1970's to spread the market, both within developed countries and to 'developing' countries. Now crisis has 'unexpectedly' occurred 'economics as usual' can take a short rest before resuming its historic mission of justifying the centrality of free-markets to our well being. Keynesians can temporarily step in to make profound observations, such as, if demand is falling might we not try to boost it up again, and speculation/deregulation of the financial system can apparently lead to disruptive financial bubbles. So let us support the economy and financial system in 'unconventional' ways and hope for recovery. 'Sensible' regulation of the financial system will then take us into a prosperous market-based future. Such superficial and aspirational economic analysis sadly reflects the political situation in developed countries; mainstream political parties from both left and right are equally committed to the market system. It is not in anyone's 'interest' to enquire further.

To their credit radical economists have resisted the hypothesis of the triumph of the free-market. For example Maddison (1995) and Armstrong *et al* (1991) demonstrated how growth and the pace of productivity improvement has slowed since the end of the Golden Age. Brenner (1998) pointed to saturated markets to explain relative stagnation in the 1980's and 1990's. Many radical economists have argued that the financial system has become 'relatively autonomous' to the interests of the productive economy and the control of the state since the end of the Golden Age, and that this has hampered growth, Fine *et al* (1999), pages 71-73,

'This pronounced disparity of dynamism between industrial and financial accumulation marks a new development in the history of capitalism. ... Indeed, far from drawing its dynamism from lending to industry, the remarkable growth of the financial system during the last two decades has been associated with speculative trading in foreign currencies, stock market securities, real estate, and the like. The repercussions of this development are profound. ... In the mid-1990s, trading in financial derivatives and stock market securities resulted in another series of speculative bubbles, ... Finance-induced policy 'orthodoxy' means price stability and high real interest rates. ... industrial accumulation is confronted with a predatory and destructive explosion of financial accumulation, ... In our view the long downturn has been heavily influenced by the emergence of relative autonomy of finance, which functions to a large extent at the expense of industry.'

Free-market globalisation has been widely criticised (notably by Stiglitz, 2002). Growing inequality between, and within both, developed and developing countries has been identified (notably by Freeman, 2004). Ghosh (2004) questions how we can label India as an economic miracle when the average Indian now actually eats less.

Perhaps surprisingly to those on the left, who are not economists, radical critics of free-market economics have not tended to employ Marx's economics in their analysis. In particular Marx's theory of the determination of commodities' values by labour-time, which provides the basis for Marx's prediction of a tendency for the rate of profit to fall in boom, is rejected, rather than embraced, by most Marxist economists! This is because most Marxist economists have spent 100 years believing that Marx's value theory is internally inconsistent (Kliman, 2007). In 1906-7 Bortkiewicz (1952 and 1984) first 'discovered' Marx's inconsistency, which Sweezy (1942) and Samuelson (1971) publicised, helping this 'fact' to become 'mainstream' Marxist economics (see for example Desai, 1979). Bortkiewicz focused on Marx's (1981, Chapter 9) transformation of commodities' values into prices of production so as to equalise profitability across sectors with differing ratios of constant capital (machines, raw materials etc.) to variable capital (wages). Marx had simply defined varying levels of total constant capital and variable capital inputs for five capitals/spheres of production, and assumed a 100% rate of exploitation for each capital to determine the surplus-value each extracted, revealing the total value each capital produced.¹ If each capital simply realised/appropriated the value they produced, capitals with more variable capital compared to constant capital would enjoy higher profit rates than capitals with higher ratios of constant capital to variable capital, and this would make no sense.² Marx argued that movement of capital between spheres would tend to equalise profit rates between spheres, ensuring the value capitals appropriated would tend to differ from the value they produce. Marx defined the set of prices that would equalise profitability as the prices of production. Determination of value by labour-time, and surplus-value representing the ultimate source of profit, are not violated as, although in each sphere appropriated value is likely to deviate from produced value, for the economy as a whole total appropriated value equals total produced value and total profit equals total surplus-value. Problem solved.

To Bortkiewicz Marx had under-defined the problem; how could the economy reproduce itself? He recast the problem defining which spheres produced commodities to act as constant capital, variable capital and capitalist luxury goods (actually gold), setting physical quantities so the economy could identically repeat itself in a stationary state (simple reproduction, Marx, 1978). This adjustment ensured that the unit value of inputs equalled the unit value of outputs, satisfying the new simultaneous approach of Walras, who Bortkiewicz admired (Freeman, 1996). Bortkiewicz also imagined that value, or rather produced value, was a matter of labour-time in hours and represented one 'system', while price, or rather appropriated value, was a matter of money, measured in some unit of money, and represented a second separate 'system' to value. The two separate 'dual' systems had to be bought together/normalised, but as Desai (1979) explains, the problem is now over-identified! Marx imagined through the transformation total appropriated value/'price' would equal total produced value/'value' and total profit would equal total surplus-value. But if, as Bortkiewicz did, total profit was equated to total surplus-value to normalise the two systems together, total 'price' did not equal total 'value'. Marx's value theory did not add up; it must be internally inconsistent. Marx's transformation process thus became the 'transformation problem' and the basis to challenge the consistency/usefulness of Marx's concept of value. Furthermore Steedman (1977) proved, if we take a simultaneous approach, values in labour-time are perfectly proxied by physical quantities of commodities/use-values, making Marx's value

theory redundant, incapable of revealing any further insight than conventional ‘real’ terms (which adjust nominal terms by inflation to find the real/physical quantity of commodities/use-values).³

With Marx’s value theory broken/redundant any Marxist economist can fix, play pick and mix with, Marx’s economics and conclude anything they like; everyone can be their own Marxist (Kliman, 2010). Okishio (1961) found, once Marx was adjusted to an ‘appropriate’ simultaneous method, the unique profit rate, identical in either labour-time or conventional ‘real’/physical terms, could not tend to fall for the reasons Marx had suggested. If a new production method raised productivity in physical terms, increasing the physical surplus product, as long as workers did not grab this in higher wages, the rate of profit in physical terms would rise, not fall. With the falling rate of profit tendency neutralised radical economists shifted to exploring how the physical surplus was shared between capitalists and workers (Goodwin, 1967, Rowthorn, 1977, Duménil, 1983 and Foley, 1986), reflecting mainstream economics’ focus on the labour market from the 1970’s onwards. So if there is no tendency for the profit rate to fall how can we interpret the current crisis? Workers did not appear to cause it through ‘militancy’, so we must like everyone else purely blame the financial system, Kliman (2009) page 33-34,

‘Fred Moseley (2008) wrote, “Three decades of stagnant real wages and increasing exploitation have substantially restored the rate of profit [in the U.S.] ... The main problem in the current crisis is the financial sector ... The best theorist of the capitalist financial system is Hyman Minsky, not Karl Marx. The current crisis is more of a Minsky crisis than a Marx crisis.” ... a report on comments made by Duménil at the November 2008 *Historical Materialism* conference come as no surprise; “Duménil ... mock[ed] the idea that ‘the profit rate had to be behind the crisis.’ ... [H]e thought the crisis was of financial origin and that the profit rate had been relatively steady and had little to do with it.” The same report states that Costas Lapavistas, another well-known Marxist economist, was “also dismissive of the profit-rate line” (Beggs 2009).’

BRINGING MARX BACK INTO THE GAME.

But what if Marx’s value theory was consistent; would it lead us to a different conclusion? Since the 1980’s the Temporal Single System Interpretation (TSSI) of Marx has sought to prove that Marx’s value theory is, and always has been, internally consistent (see notably Kliman, 2007). The TSSI agree, if Marx had followed a simultaneous and dualistic method ‘his’ value theory would be inconsistent, but contend that this was not his method. In contrast, if we apply a sequential and non-dualistic (to price and value) method Marx’s value theory is freed from any inconsistency, the transformation problem is no longer a problem (Kliman and McGlone, 1988). Total appropriated value equals total produced value, and total profit equals total surplus-value (and total wages equals the total value of variable capital) if, like Bortkiewicz, we assume simple reproduction and define which spheres produce which commodities to act as constant capital, variable capital etc, or not (Ramos-Martinez and Rodriguez-Herrera, 1996).

A sequential approach recognises the existence of time. As production takes time outputs may sequentially have a different unit value than inputs. Non-dualism means that 'price', or rather appropriated value, and 'value', or rather produced value, are imagined in a single system of *value*, with value being expressed in either units of money or hours of labour-time. Commodities' produced values at the end of production can be expressed either in money or labour-time, just as these commodities' appropriated values/prices, also established at the end of production, before circulation, can be expressed in either money or labour-time. The tendency to profit rate equalisation will ensure commodities' appropriated values will diverge from their produced values, as will monopoly prices and any fluctuation in supply and demand, but within the overall constraint that total appropriated value must equal total produced value. If at the end of production we divide the monetary expression of total appropriated value (revealed by price formation) by the labour-time expression of total produced value we find the value of money. The TSSI term the inverse of the value of money, the number of units of money that represent an hour of labour-time, the monetary expression of labour-time (MELT). All values can be expressed in either money or labour-time by appropriately adjusting them by the MELT holding at *that* point in time. The value of inputs at the start of the current period of production is determined by their prices/appropriated value at the end of the previous production period, in labour-time by their price divided by the MELT holding at the end of production last period.⁴ Through production this period constant capital passes its value, as *already determined* by its appropriated value at the end of the previous period, to the value of this period's output, together with the total living labour worked this period determining the produced value of this period's output.

TSSI authors have provided much textual evidence to show that Marx did indeed have a sequential and non-dualistic method (as summarised in Kliman, 2007), but faced with continual scepticism from 'mainstream' Marxists, TSSI authors have moved forward to looking at the issue hermeneutically (Kliman, 2007). Essentially is it sensible to attribute a methodological approach to an author if it makes that author's logic inconsistent and/or invalidates their central conclusions? If for all possible methodological approaches the author's logic remains inconsistent and/or their central results fail to hold that author's work is beyond doubt inconsistent/fatally flawed. But if an interpretation of the author's method exists that ensures their argument is consistent and confirms their central results surely we must interpret the author as having followed this method? So hermeneutically, the fact that Marx's value theory is consistent, and all his central results hold, if we interpret his method as sequential and non-dualistic, cannot be disproved by simply applying a different methodological approach to 'prove' inconsistency. Furthermore, the TSSI recognise that proving Marx to be consistent is not the same as proving Marx was right about everything, but if we are to discover if Marx was right about anything we must attribute to him a method that actually allows him to be consistent.⁵

Employing a sequential and non-dualistic approach to Marx's value theory reconfirms Marx's prediction of a tendency for the rate of profit to fall in times of accumulation boom (see typically Kliman, 1996). In an extensive debate between Laibman, Foley, and Freeman and Kliman, in *Research In political Economy*

Volumes 17 and 18, both Foley and Laibman accepted, outside of a simultaneous setting, that the physical/use-value and value profit rates might diverge, with profitability in value terms potentially falling as physical profitability rises. With the supposedly universal Okishio theorem disproved Foley (2000) called into question the importance of the value profit rate over the physical rate, while Laibman (2000) employed replacement cost valuation to effectively return from a sequential to a simultaneous approach to ‘reconfirm’ the Okishio theorem. But as Freeman and Kliman (2000) make clear, Marx is concerned with the value profit rate, not the physical rate, and the profit rate relates surplus-value to the capital which was actually advanced, not its replacement value today as if it was magically advanced today for yesterday! Potts (2009a) employs a common scenario with rising physical profitability to illustrate how, if we apply a simultaneous and dualistic method, or the New Interpretation’s method, the value profit rate equals the rising physical profit rate. But if we apply a simultaneous and non-dualistic method the value profit rate falls, as the physical profit rate rises, disproving the Okishio theorem.⁶ Carchedi (2009) stresses that if we believe the tendency is for the profit rate to rise, with a counter-tendency for the rate of profit to fall, we are embracing a stable reformist vision of capitalism. So with Marx back in the game can his value theory, prediction of a tendency for the rate of profit to fall, help us to understand our current crisis?

MARX’S TENDENCY FOR THE RATE OF PROFIT TO FALL AND THE PHENOMENON OF SURPLUS CAPITAL.

With the transformation ‘problem’ solved in Part Two of Marx (1981), Part Three explains why the profit rate tends to fall in boom. The tendency follows from how capitalists tend to compete with each other. To explain, for simplicity, let us consider an industry with the economy’s average ratio of constant capital to variable capital earning the economy’s average profit rate. Within this industry some producers will be more productive/advanced and have a lower individual produced value per unit of output than the industry average, and thus have higher profitability than average profitability. On the other side, the tendentially smaller and more numerous below average productivity producers, will have individual produced values per unit of output above the industry average, and earn below average profitability. For Marx profit rate equalisation is a tendency between industries, not within industries. If through technological change, which tends to increase scale and input of constant capital relative to variable capital, a producer, most likely an already advanced and consequently larger producer, increases its productivity it grabs a surplus profit, rewarding its actions, Marx (1981) pages 373-374,

‘No capitalist voluntarily applies a new method of production, no matter how much more productive it may be or how much it might raise the rate of surplus-value, if it reduces the rate of profit. But every new method of production of this kind makes commodities cheaper. At first, therefore, he can sell them above their price of production, perhaps above their value. He pockets the difference between their costs of production and the market price of the other commodities, which are produced at higher production costs. This is possible because the average socially necessary labour-time required to produce these latter commodities is greater than the labour-time required with the new method of production. His production procedure is ahead of the social average. But competition makes the new procedure universal and subjects

it to the general law. A fall in the profit rate then ensues – firstly perhaps in this sphere of production, and subsequently equalized with the others – a fall that is completely independent of the capitalists’ will.’

The aggregate result of capitalists competing by investing in technology is that in terms of value constant capital grows faster than variable capital and surplus-value. As the economy’s overall profit rate equals total surplus-value divided by total constant and variable capital advanced, capitalist competition creates a tendency for the profit rate to fall. The capitalist system’s progressive stimulation of technology comes up against its limited goal. Marx (1981) pages 358-359, note by producers Marx means immediate producers, the workers,

‘The *true barrier* to capitalist production is *capital itself*. It is that capital and its self-valorization appear as the starting and finishing point, as the motive and purpose of production; production is production only for *capital*, and not the reverse, i.e. the means of production are not simply means for a steadily expanding pattern of life for the *society* of the producers. ... The means – the unrestricted development of the forces of social production – comes into persistent conflict with the restricted end, the valorization of the existing capital.’

Progress/technological change comes at the cost of periodic crises because of the fundamentally contradictory nature of the capitalist system. Marx (1981) explains how the tendency for the profit rate to fall is held back, potentially even temporally reversed, but never in the end over-ridden, by counter-tendencies. As commodities are cheapened by technological change the value of the worker’s necessary means of subsistence falls. Assuming the worker’s material standard of living is unchanged, their wage, the firm’s variable capital input, falls in value, increasing the surplus-value extracted from the worker, as long as the working day remains the same. This production of relative surplus-value thus acts as a counter-tendency, but is limited as the rate of exploitation is itself limited. In the extreme if wages dropped to zero exploitation could go no further, but the profit rate would still decline as long as investment in constant capital exceeded growth in living labour input.

Technological change cheapens constant capital, but again this is only a counter-tendency, that cannot reverse, rather is in fact a very feature of, the tendency for constant capital to grow faster than variable capital. If a commodity, which acts as circulating constant capital, becomes cheaper to produce this period it will be cheaper next period as an input, but, unless we take a simultaneous method, it cannot boost profitability this period. Likewise, if commodities acting as fixed constant capital become cheaper to produce this period, they will be cheaper as inputs next period, but this period profitability is depressed by capitalists having to write-off from profits the price/moral depreciation of all existing units of fixed capital of this kind. Theoretically technological change could be so extreme as to reduce total constant capital input next period, the economy would shrink, not grow, in value terms, boosting the profit rate. However this is not the boom of growing investment of constant capital relative to variable capital Marx (1981) Part Three argues capitalist competition tends to produce. Marx does not imagine that such a sharp general devaluation of constant capital occurs in boom; rather it is a central feature of crisis, as demand collapses, rather than technology leaping forward. In crisis workers are

forced to adjust their expectations of how they must work and what constitutes a normal standard of living. With constant capital heavily depreciated and the rate of exploitation boosted, crisis acts to boost/restore the profit rate and lay the seeds for future recovery and renewed boom.

Finally, let me stress, Marx is talking about a tendency for the rate of profit to fall in terms of value, which can be expressed in labour-time or money by appropriately accounting for the value of money. This is not a tendency for the profit rate to fall in use-value/physical/‘real’ terms. Marx identifies that technological change will increase physical productivity, as it depresses the value profit rate by increasing constant capital relative to variable capital, Marx (1976) page 137 followed by Marx (1981) pages 326, 318 and 347,

‘As productivity is an attribute of labour in its concrete useful form, it naturally ceases to have any bearing on that labour as soon as we abstract from its concrete useful form. The same labour, therefore, performed for the same length of time, always yields the same amount of value, independently of any variations in productivity. But it provides different quantities of use-values during equal periods of time; more, if productivity rises; fewer, if it falls.’

‘the individual capitalists have command of increasingly large armies of workers (no matter how much the variable capital may fall in relation to the constant capital), so that the mass of surplus-value and hence profit which they appropriate grows, along with and despite the fall in the rate of profit.’

‘There corresponds to this growing volume of constant capital – although this expresses only at a certain remove the growth in the actual mass of use-values which the constant capital consists of in material terms – a continual cheapening of the product.’

‘The profit rate does not fall because labour becomes less productive but rather because it becomes more productive.’

Marx (1981) explains how, from the C18th, the UK’s financial system organically grew to support the growth of industrial capitalism. Firstly commercial credit, then the credit system in general, developed to support continual production without the need to hold large idle reserves of money capital. The financial system developed to facilitate the expansion of capitalism by concentrating all idle hoards of money and lending them out to expand production. The financial system thus increased the pace of accumulation of capital, despite it taking its share of profit in interest, by making those profits larger by expanding the productive economy. Lending to capitalists became a specialist business and a necessary feature of the capitalist system. As the financial system supports accumulation the contradictions accumulation produces heighten, to be snapped back in crisis, Marx (1981) pages 349-350, 359 and 572,

‘the rate of profit, is the spur to capitalist production (in the same way as the valorization of capital is its sole purpose), a fall in this rate slows down the formation of new, independent capitals and thus appears as a threat to the development of the capitalist production process; it promotes overproduction, speculation and crises, and leads to the existence of excess capital alongside a surplus population.’

‘As the profit rate falls, so there is a growth in the minimum capital that the individual capitalist needs ... This growing concentration leads in turn, at a certain level, to a new fall in the rate of profit. The mass of small fragmented capitals are thereby forced onto adventurous paths: speculation, credit swindles, share swindles, crises.’

‘If the credit system appears as the principal lever of overproduction and excessive speculation in commerce, this is simply because the reproduction process, which is elastic by nature, is now forced to its most extreme limit; and this is because a great part of the social capital is applied by those who are not its owners, and who therefore proceed quite unlike owners who, when they function themselves, anxiously weigh the limits of their private capital. This only goes to show how 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. ... credit accelerates the violent outbreaks of this contradiction, crises.’

The financial system is not the ultimate cause of instability, because the instability already comes from the tendential behaviour of productive economy. But the financial system heightens instability, by both supporting boom in the productive economy and, as the profit rate falls, increasingly supporting investment of surplus capital in fictitious capital and other adventurous paths. By surplus capital we mean profit that is not invested in the productive economy i.e. it is surplus to the productive economy’s investment requirements, Marx (1969) page 484,

‘more capital is accumulated than can be invested in production, and for example lies fallow in the form of money at the bank. This results in loans abroad, etc., in short speculative investments.’

Surplus capital must restlessly seek employment outside of the productive economy, through speculation in fictitious capital, acting as the basis for increased usury (particularly in the form of mortgages and government debt, see below), being exported abroad, or being employed on any other adventurous path outside the productive economy. Let us remind ourselves what Marx means by fictitious capital, Marx (1981) page 595 then 597-598,

‘The form of interest-bearing capital makes any definite and regular monetary revenue appear as the interest on a capital, whether it actually derives from a capital or not.’

‘The formation of fictitious capital is known as capitalization. ... For example, if the annual income in question is £100 and the rate of interest 5 per cent, then £100 is the annual interest on £2,000, and this £2,000 is then taken as the capital value of the legal ownership title to this annual £100. ... Even when the promissory note – the security – does not represent a purely illusory capital, as it does in the case of national debts, the capital value of this security is still pure illusion. ... the capital does not exist twice over, once as the capital value of the ownership titles, the shares, and then again as the capital actually invested or to be invested in the enterprises in question. It exists only in the latter form, ... The independent movement of these ownership titles’ values, not only those of government bonds, but also of shares, strengthens the illusion that they constitute real capital besides the capital or claim to which they may give title. They become commodities,’

Marx would have appreciated that when mortgages were bundled together and sold as Collateralised Debt Obligations (CDO's), they would appear as commodities to trade in the financial system, Marx (1981) page 596,

'Moving from the capital of the national debt, where a negative quantity appears as capital – interest-bearing capital always being the mother of every insane form, so that debts, for example, can appear as commodities in the mind of the banker'

Just as the TSSI now defend Marx's tendency for the profit rate to fall from simultaneous revision, early in the C20th Henryk Grossmann restated Marx's argument to counter the reformists of his day (Potts, 2009b). Grossmann (1929, English translation, 1992) linked Marx's tendency for profit rate to fall to Marx's prediction (Marx, 1976, page 929) that capitalism would eventually bring about its own negation. Grossmann's breakdown theory did not imagine an automatic breakdown of capitalism through crisis, but saw crises as potential revolutionary situations when capitalism could be superseded, depending on the strength of the working class.⁷ If the working class were not sufficiently organised to replace capitalism, increased exploitation and devaluation of constant capital would restore the profit rate, renewing accumulation until another crisis/revolutionary situation inevitably reoccurred. Commenting on Marx (1981) Chapter 15 Section 3, 'Surplus Capital Alongside Surplus Population', Grossmann (1992) page 79 notes,

'A classic illustration is the United States today (March 1928) where, together with a superfluity of capital, shortage of investment opportunities and massive speculation in real estate and shares, there is a surplus working population of 4 million unemployed workers. This not because too much surplus value has been produced but because in relation to the accumulated mass of capital too little surplus value is available.'

Grossmann attacked Hilferding's (1981) theory of finance capital. Banks can only take the lead in lending to and co-ordinating industry when capital is relatively short in supply (such as in Eastern Europe during their attempts to establish capitalist economies). As capitalism develops further, and in particular as booms progress, capital is not only abundant, it becomes surplus, Grossmann (1992) pages 199 to 200,

'At more advanced stages of accumulation industry becomes increasingly more independent of credit flow because it shifts to self-financing through depreciation and reserves. ... In countries like Britain, France and especially the USA, it is simply not possible to speak of industry being dependent on the banks. ... According to Vogelstein, this is one of the reasons why banks have been turning to the stock exchange by way of investments.'

With perfect foresight Grossmann points to an imminent crisis, potential breakdown, for the United States, Grossmann (1992) pages 191 to 193,

'superfluous capital looks for spheres of profitable investment. With no chance in production, capital is either exported or switched to speculation. ... Despite the optimism of many

bourgeois writers who think that the Americans have succeeded in solving the problem of crises and creating economic stability, there are enough signs to suggest that America is fast approaching a state of overaccumulation. ... The depressed state of industry is reflected by an expansion of speculative loans and speculative driving up of share prices. ... Today America is doing its best to avert the coming crash – already foreshadowed in the panic selling on the stock exchange of December 1928 – by forcing up the volume of exports. ... When these efforts are matched by a similar drive by the Germans and the British, the crisis will only be intensified.’

To sum up, boom tends to reduce the profit rate causing, now surplus, capital to be increasingly switched to unproductive speculative activities, creating bubbles.⁸ The stretched system must eventually snap, with crisis appearing to purely result from the actions of the financial system, but actually resulting from the tendential behaviour of the productive economy. This scenario appears to fit events in Marx’s day (as recorded in Marx, 1981), while the Great Depression followed as Grossmann predicted, but is it relevant to our current crisis? I would suggest yes, but the time-scale appears to be much longer!

Kliman (2009) calculates profitability in American recovered very strongly after the Great Depression through preparations for, and fighting, the Second World War. Boom continued after the war, with profitability declining steadily as this Golden Age progressed. The boom was longer than ‘usual’, perhaps because governments sought to prolong it; in any case tight regulation of exchange controlled financial systems sought to limit speculation/unproductive use of any potential surplus capital. However by the early 1970’s crisis surplus capital was increasingly being lent abroad as an exchange control free ‘offshore’ financial system developed, while usurious lending to the public in form of mortgages and consumer credit also strongly grew. By the pre-Golden Age norm, to boost the profit rate from its now low level, the economy should have now suffered a large crisis and subsequently returned to strong boom. But, as is conventionally accepted, growth in developed countries has on average been much slower in the 35 years since 1973 than during the Golden Age. Kliman (2009) calculates that the rate of profit in America has simply cycled around a lower average rate since the end of the Golden Age.⁹ We have experienced crises, but not a sufficient crisis to decisively restore the profit rate and stimulate strong boom.

Crises have been postponed/limited by government’s willingness to promote/accept expansion of credit (Kliman, 2003). In the face of rapidly rising unemployment even Margaret Thatcher eased monetary policy in 1981, before inflation was anywhere near price stability. Conflict theories of inflation (Rowthorn, 1977) considered inflation’s role in postponing crisis simple in terms of the capital labour conflict i.e. the division of newly added value between capitalists and workers. Such theories’ narrow focus ensured they missed the point that even if the profit share of newly added value rises, if constant capital is not strongly depreciated, the profit rate will not decisively rise. If either the early 1980’s or early 1990’s crises had been sufficiently large to decisively restore the profit rate growth should have subsequently been much faster; capital would not have been so surplus to the investment plans of capitalists in developed countries. Rather, the phenomenon of persistent surplus capital has consistently shown itself in terms of increased usurious lending within developed countries, supporting housing market bubbles and growing levels of consumer and

government debt, while ‘globalisation’ has facilitated export of surplus capital to developing countries and speculation on a global level. So although inflation has fallen since the early 1990’s, probably reflecting workers in developed countries weaker position in the capital labour conflict, the phenomenon of surplus capital pushing forward excessive credit creation has not abated. Persistent slow growth and surplus capital is simply explained by persistently low profitability. Governments have tried to avoid/limit crises by consistently choosing to support credit creation and increasingly stepping in to rescue financial institutions that have overextended credit (often in usurious directions).

In this context we must ask if our current crisis has been sufficiently large to finally decisively restore the profit rate and, in time, stimulate a new strong boom. Potentially governments, unprecedented in scale, rescue of the financial system and attempts to stimulate the economy, with accompanying dramatically rising national debts/usurious lending to governments, will simply lead to continual postponement, with low profitability, low growth and high levels of surplus capital seeking adventurous paths/creating new bubbles. Intriguingly Marx points to postponement of crisis through credit creation as being *no cure*, Marx (1981) page 621,

‘It is clear that this entire artificial system of forced expansion of the reproduction process cannot be cured by now allowing one bank, e.g. the Bank of England, to give all the swindlers the capital they lack in paper money and to buy all the depreciated commodities at their old nominal values.’

Marx is not explicit on why this is not a cure, we must remember Marx (1981) is an unfinished work. On page 649 of Marx (1981) Marx explains how Central Banks, ‘as long as a bank’s credit is not undermined’, can alleviate crisis by expanding their creation of credit money, but this may undermine the value of money and threaten the stability of capitalist relations in general.¹⁰ So credit expansion is no cure if it destabilises the value of money completely, but the credit expansions since the 1970’s have not entirely destroyed the value of money, or caused capitalist relations to collapse (yet). So in what other sense may Marx have meant that credit expansion to alleviate crisis is no cure? I suggest that we can interpret the ‘cure’ as a return to boom through high levels of productive investment spurring on technological change, capitalism’s most positive potential feature. However, capitalism is not benign; we must first experience sufficient crisis to restore the profit rate, while in booms leading producers’ gain at the expense of small producers, sweeping away independent producers such as peasant farmers in developing countries. But capitalist development/technological change does increase the potential to improve all’s standard of living, but only if capitalism can be left behind by moving to a more advanced non-capitalist form of society. Under capitalism there is simply no cure, and trying to stand in the way of capitalism’s tendencies through promoting credit expansion to prevent/limit crisis is no cure. I suggest that the last 30 years show us we simply swap a period of crisis and subsequent boom for a longer period of relative stagnation, with slower technological progress, and this is no cure.

Interpreting events in this way relies on the statistical fact that profitability has remained at a low average rate for 30 years. Our quote from pages 33 to 34 of Kliman (2009) shows us that Marxist economists do not necessarily accept this. But as Kliman (2009) makes clear calculating the profit rate in conventional 'real' terms is not the same as calculating the profit rate in terms of relating profit to the historical cost of the capital that was actually advanced.¹¹ Furthermore, a conventional 'real'/use-value/physical concept of value, interprets the value of money to be stable if prices are stable. Once value is freed from physical terms, by taking a sequential and non-dualistic approach to value, the value of money, in terms of labour-time, is only constant if prices fall to match the falling labour-time value of commodities i.e. the pace of technological change. Estimating profit in value terms thus requires data to be appropriately adjusted so we can attempt to consider the profit rate Marx actually thinks has a tendency to fall.¹² Statistical proofs are not as simple as they seem to be. Much statistical work remains to be done; I have only commented on American profitability because I know of no attempt to calculate the profit rate in the UK or EU that actually follows Marx's concept of value!

WHEN IS THE FINANCIAL SYSTEM ACTING AS A USURER?

Marx appreciated that lending money at interest has occurred in many forms of society going back to the ancient world. In pre-capitalist societies lending is seen as usury and is morally frowned upon, Marx (1981) page 729, then Marx (1976) page 740 (Marx is quoting Luther, 1540),

'Two of the forms in which usurer's capital exists in phases prior to the capitalist mode of production are particularly characteristic. ... *firstly*, usury by lending money to extravagant magnates, essentially to landed proprietors; *secondly*, usury by lending money to small producers who possess their own conditions of labour, including artisans, but particularly and especially peasants, ... Both of these things, the ruining of rich landed proprietors by usury and the impoverishment of the small producers, lead to the formation and concentration of large money capitals.'

'The heathen were able, by the light of reason, to conclude that a usurer is a double-dyed thief and murderer. We Christians, however, hold them in such honour, that we fairly worship them for the sake of their money ... Little thieves are put in the stocks, great thieves go flaunting in gold and silk ... Therefore is there, on this earth, no greater enemy of man (after the devil) than a gripe-money, and usurer, for he wants to be God over all men. ... And since we break on the wheel, and behead, highwaymen, murderers, and housebreakers, how much more ought we to break on the wheel and kill ... hunt down, curse, and behead all usurers.'

What would Luther say about bankers' bonuses today? Usury tends to be ruinous to the borrower because they tend to not have the economic basis to make a sufficient profit to repay interest, so borrowers must seek to borrow more and more, eventually losing their possessions to the usurer. Ponzi financing (Minsky, 1982) has always been a central feature of usury. In sharp contrast capitalism does provide the economic basis to support lending to *capitalists*. The capitalist's ability to generate a profit by exploiting their workers provides a clear material basis for interest to be paid

without ruining the capitalist. Interest is merely a redistribution of profit between monied capitalists and productive capitalists. But usury did not stop when the system became capitalist, it continued alongside the new specifically capitalist forms of lending as a parasitical primitive/secondary form of exploitation, to capitalists' primary exploitation of workers in production, Marx (1981) page 735, then 745,

'Usury proper not only continues to exist, but in countries of developed capitalist production it is freed from the barriers that former legislation had always placed to it. Interest-bearing capital retains the form of usurer's capital vis-à-vis persons and classes, or in conditions where borrowing in the sense appropriate to the capitalist mode of production does not and cannot occur; where borrowing results from individual need, as at the pawnshop; where borrowing is for extravagant consumption; or where the producer is a non-capitalist producer, a small peasant, artisan, etc. ... finally where the capitalist producer himself operates on so small a scale that his situation approaches that of those producers who work for themselves.'

'the renting of houses, etc. for individual consumption. It is plain enough that the working class is swindled in this form too, and to an enormous extent ... This is a secondary exploitation, which proceeds alongside the original exploitation that takes place directly within the production process itself.'

By Marx's definition mortgages, personnel loans and provision of credit cards to non-capitalists, the vast majority of the population, is usury. As is lending to very small firms and the self employed. Lending to those with no ability to generate any, or insufficient, surplus-value/profit to repay the loan is usury, and usury is likely to impoverish the borrower, who is at risk of losing their collateral/possessions.

Although secondary exploitation of workers through usurious lending and housing continued, by the 1950's it was limited by tight regulation of banking, with overdrafts replacing pawnshops, and massive state intervention in the housing market. But since the 1950's, at first slowly, and then in the UK with a bang under Margaret Thatcher, workers have tended to buy houses. Credit expansion and inflation in the 1970's fuelled an escalation of house prices and mortgage levels. Deregulation of the financial system allowing surplus capital to effortlessly fuel increased mortgage lending/house prices and an expansion of consumer credit in general. As both the quality and quantity of social housing fell the imperative for workers to try to own their own homes rose. To achieve this women were increasingly drawn into the workforce. But as the working household's total wage grew working household could 'afford' to pay more interest, further boosting mortgages and house prices. Once the norm became both husband and wife working, if they have children or not, it became near impossible for individual working households to not follow this norm in-order to afford to own their own home. Marx thinks it is absurd to capitalise the worker's wage to find the worker's 'capital' value, Marx (1981) pages 596-597,

'two inconvenient circumstances militate against this unthinking notion: first, the worker has to work in order to receive this interest, and second, he cannot turn the capital value of his labour-power into money by transferring it to someone else. ... Under the slave system the worker does have a capital value, namely his purchase price.'

We agree, the worker is not an independent capital, their wage does not represent interest on their imaginary capital value, rather the worker only acts as capital to the capitalist, who in production exploits from them surplus-value. But although workers are not technically slaves, working households are capitalised as if they were slaves through their mortgages, by the financial system acting in a usurious fashion. In this sense a working household can sell a proportion of the value of their labour-power by selling their house, or rather transferring their 'voluntary enslavement' to work/usury to another working household, prepared to gamble they can work enough to pay the mortgage. In such a fashion many working households have downsized to retire early.

Parker (2009) records how in August 2009 Adair Turner, the chairman of the UK's Financial Services Authority, argued that the financial sector had become too big relative to the needs of 'society'. Clearly in capitalism the financial system must be big enough to flexibly lend to the productive economy. This will inevitably include supporting booms in fictitious capital over the normal capitalist economic cycle, as excessive regulation, aimed at preventing such activity, may lead to the financial system becoming too inflexible to actually support booms. In sharp contrast high levels of usurious lending does not benefit the capitalist system. The explosion of usurious mortgage lending has created such a massive level of secondary exploitation that it threatens both, the reproduction of the worker, and capitalists' original exploitation of the worker in production. The process is akin to the Corn Laws in the C19th, which, up to their repeal in 1846, kept workers' reproduction cost/the price of bread high, to the advantage of landowners, and the disadvantage of capitalists by limiting the surplus-value they could extract from their workers. Increased public provision of rented accommodation and strict restrictions on mortgage lending could make housing affordable, enabling capitalists to 'moderate' their workers' wages and increase their profits. Both business and working households could benefit, with the government having the ability to influence the distribution of the benefit through the minimum wage. Furthermore, we can see how high house prices limit the mobility of labour, and hold young people back from having their own homes and getting on with their important duty of reproducing themselves.

Finally we must remember that lending to governments is usury, akin to lending to the feudal lords of old, Marx (1981) page 731,

'As long as slavery prevails, or the surplus product is consumed by the feudal lord and his retinue, the mode of production still remains the same even though slaveowner or feudal lord fall prey to usury; it simply becomes harsher for the workers. The indebted slaveowner or feudal lord takes more out of them, since more is taken from him. Ultimately, he may be completely replaced by the usurer, who himself becomes a landowner or slaveowner as the knights did in ancient Rome.'

The government squeezes the population to pay interest on their national debt, and if they cannot do this, in place of the knights of Rome, the International Monetary Fund is ready to step in to become the master of that country. Increasing tax on workers, just like high mortgages, increases their reproduction cost, ultimately limiting capitalists' ability to extract surplus-value. Capitalism is best served by limiting this

usurious form of lending. Both business and workers should campaign for the Bank of England to tear up the approximately £200bn of government bonds it holds as the result of its quantitative easing programme. High national debt is not an inevitable feature of capitalism, rather, like escalating usurious lending to workers, escalating government borrowing reflects governments' attempts to postpone crisis i.e. interfere with capitalism's inherent tendencies.

CONCLUSION.

I contend if we wish to look to Marx for an insight into how the economy has performed, we must employ his central idea of the determination of commodities' values by labour-time. We can then understand why booms must end in crises, and how distortion of this process leads to stagnation, with surplus capital taking adventurous paths. I believe Marx's more advanced method ensures his economics provides a deeper understanding of the economy than conventional economics, and for that matter Keynesian economics. Marxist economists, who do not accept the consistency of Marx's value theory, erroneously equate profitability in value terms with physical profitability, ruling themselves out of gaining the deeper insight Marx offers.

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NOTES.

1. Marx actually complicates the problem by defining some constant capital as fixed, and some as circulating (consumed entirely in the production period). Later in Chapter 9 of Marx (1981), on page 264, Marx provides a simpler three-sector solution, assuming all constant capital circulates. To simplify Bortkiewicz also assumed all constant capital circulates (Desai, 1979).

2. Marx alerts us to this problem in 1867, and promises to solve it later 'For the solution of this apparent contradiction, many intermediate terms are still needed,' (Marx, 1976, page 421). But Marx died in 1883, before publishing his solution, with Marx (1981), prepared by Engels, not appearing until 1894.

3. Hardt and Negri (2000) see the 'rise' of knowledge as another reason to reject Marx's value theory. Potts (2007) argues Marx was fully aware of the concept of knowledge, and that we will find out more about knowledge by applying Marx's

value theory to the question of knowledge than questioning Marx's value theory because of the existence of knowledge, as if it were a new phenomenon.

4. Potts (2010a), following the TSSI of Marx, discusses how to value commodities when we have stocks of unsold commodities.

5. The TSSI has had to counter allegations of internal inconsistency itself, for example see the recent debate in *Capital & Class* (Kliman, 2001, Mohun, 2003, Kliman and Freeman, 2006, Mohun and Veneziani, 2007, Freeman and Kliman, 2008). In essence critics of the TSSI either 'find' inconsistency by mixing elements of other interpretations with the TSSI (for example Mohun, 2003), or by attacking in general the use of sequential methodology, which clearly requires a different concept of initial conditions to imagining an initial condition of time-less simultaneous stability (for example Mongiovi, 2002). We are back to Bortkiewicz's criticism of Marx for not being more 'scientific' like Walras; if by definition 'scientific' economics has to be simultaneous all non-simultaneous approaches are not scientific. Freeman (2008) records how for all schools of economic thought, including Keynesian and Austrian economics, the tendency throughout the C20th is for a simultaneous method to be applied replacing non-simultaneous methods, thus converging schools of economic thought together towards the simultaneous mainstream.

6. Potts (2009b) notes how we can easily adjust Grossmann's (1929) sequential illustration of the falling rate of profit to disprove the Okishio theorem, 30 years before it was even stated!

7. The section of Grossmann (1929) dealing with this political question is not in Grossmann (1992), but can be found in Lapidés (1994).

8. Potts (2009c) considers the notion of surplus capital laid out textually in this paper (and in Potts, 2010b) in a mathematical model of a booming economy, with declining value profitability and a build up of surplus capital/investment in fictitious capital. In boom, the relative decline of returns from productive investment compared to investment in fictitious capital essentially follows from share prices relating to the mass of profit, which in boom rises, as the rate of profit, the mass of profit divided by the faster growing level of capital advanced, falls. Inflation, the decline in the value of money in terms of labour-time, boosts both the nominal returns from productive investment and speculative investment in fictitious capital. But this does not prevent investment in fictitious capital becoming relatively more attractive. The return from investing in fictitious capital rises above the return from productive investment in the same period, whether we assume a constant value of money or a constant rate of inflation in 'real' terms.

9. Kliman (2009) page 52 to 53 presents for the US corporate sector, 'Before-tax Profits as % of Historical Cost of Fixed Assets' and 'Property Income as % of

Historical Cost of Fixed Assets', from 1947 to 2007, in nominal, real and value (by adjusting nominal magnitudes by the monetary expression of labour-time) terms. The trajectories of both rates are very similar in real and value terms. Both profit rates are higher in real terms than value terms, with this gap narrowing from the 1970's onwards. This is to be expected as real terms miss how productivity improvement reduces the value of commodities, thus overestimating the value of money. The narrowing of the gap between real and value for both rates points to a slowdown in productivity growth since the 1970's, as we would expect, as the economy stagnates. Both profit rates strongly decline in real and value terms during the Golden Age. Before-tax Profits as % of Historical Cost of Fixed Assets, in real and value terms, has averaged at a lower average rate, than the already lower rate experienced in the 1970's, from the 1980's onwards. Property Income as % of Historical Cost of Fixed Assets, in real and value terms, has simply continued on average to gradual decline from the 1970's onwards.

10. Marx also notes on page 649 of Marx (1981), how the 'so-called national banks' suspension of convertibility of credit money into gold in crisis indicates that 'even now no metal money is needed at home' and is only required for international settlements. Marx's understanding of the process of credit creation/the financial system is clearly much deeper than simply assuming a 'well-behaved' commodity money world.

11. Kliman's real rates of profit, reported in endnote 9, are not in conventional 'real'/use-value terms, as they value advanced capital at its historic, not its replacement, cost.

12. Kliman (2009) explains how it is impossible, and unnecessary, to calculate a 'definitive' Marxian rate of profit, noting how Marx himself managed to interpret events in his day without calculating such a rate of profit. Kliman recommends that a range of measures of profitability should be calculated to interpret events.

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