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Abstract

In the tradition of Marx and Rosa Luxemburg, Henryk Grossman identified the expansion of capitalism and imperialism with the system’s proneness to economic crises. Grossman regarded imperialism as a factor which offset the tendency for the rate of profit to fall. His analysis focussed on the effects of foreign trade, monopoly and capital export. It can provide a useful framework for understanding contemporary imperialism.

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Grossman's first published work, in 1905, was a contribution to the controversy in the European workers movement over the most effective strategy to counter national oppression, which was also an aspect of contemporary discussions of imperialism and colonialism. In an analysis heavily influenced by the Bund, he stressed the importance of the self-organisation of Jewish workers.[2] As a leader of the Jewish Social Democratic Party of Galicia, Grossman examined the economic backwardness of Austria-Hungary's Polish province. This analysis was an element in his higher doctoral thesis, completed in 1914, which dealt with an aspect of imperialism during an early stage of the transition to capitalism in eastern Europe. He argued against the Polish nationalist orthodoxy that the Habsburg Empire was responsible for Galicia's backwardness after its annexation. On the contrary, between 1772 and 1790 the mercantilist trade policies of Maria Theresia and Josef II for their new territory had promoted economic development.[3] Later he endorsed Lenin's argument that the material basis of reformism was the emergence of a 'labor aristocracy', bought off with spoils from imperialism.[4] What follows, however, only deals with more strictly economic questions, particularly Grossman's account of the relationship between economic crises and imperialism. It is a first sketch of a section of a larger project.

Marx and Engels identified the process of capitalist globalisation in the *Communist manifesto*

> The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere.
>
> …
>
> The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilization. The cheap prices of commodities are the heavy artillery with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production…

To this account they linked their preliminary approach to economic crises.

> For many a decade past, the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeois and of its rule. It is enough to mention the commercial crises that, by their periodical return, put the existence of the entire bourgeois society on its trial, each time more threateningly… In these crises, there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity—the epidemic of over-production… And how does the bourgeoisie get over these crises? On the one hand, by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones. That is to say, by

1 I am grateful to Pete Green for his insights and comments on my work.
2 Grossman 1905, Grossman 1907.
3 Grossman 1906, Grossman 1912, Grossmann 1913.
4 Grossmann 1971, pp. 281-328; letter from Grossman to Mattick, March 6 1933, Mattick Collection, Internationaal Instituut voor Sociale Geschiedenis, Amsterdam; Grossman 1923a; Grossman 1923b.

> paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented.[5]

Karl Kautsky and Rosa Luxemburg explained the late 19th century surge in the most powerful capitalist states' colonial expansion, and competition amongst them in terms of underconsumptionist accounts of economic crises. They drew on the argument in the *Manifesto* and some passages in *Capital*.[6] This was not the approach of Rudolf Hilferding in his *Finance capital*, who explained crises in terms of disproportionality between different industries and departments of production, and made no particular connection between them and imperialism. Nor did Nikolai Bukharin. Vladimir Ilych Lenin's main account of imperialism included no more than the following on the issue: 'The need to export capital arises from the fact that in a few countries capitalism has become "overripe" and (owing to the backward state of agriculture and the poverty of the masses) capital cannot find a field for "profitable" investment.'[7]

Grossman returned to Luxemburg's stress on the connection between capitalism's tendency to break down and imperialism. His *The law of accumulation and breakdown of the capitalist system*, published in 1929, is a presentation of his reconstruction of Marx's account of economic crises deriving from the tendency for the rate of profit to fall. But it can be read as a sustained argument for regarding imperialism as a necessary consequence of capitalism's inherent breakdown tendency. For Grossman, as for Luxemburg, 'the growing tendency to break down and the strengthening of imperialism are merely two sides of the same empirical complex'.[8] 'The modern imperialism of capitalist states is the necessary effort, through economic expansion whose final stage is the incorporation of foreign territories by the state, *to overcome the tendency to breakdown, the failure of valorisation, by securing the flow of additional surplus value from outside*.'[9] Unfortunately, the English translation of the book dramatically abbreviates much of the relevant discussion.

The third chapter of *The law of accumulation* examines counter-tendencies to the tendency for the rate of profit to fall, developing some arguments presented by Marx on a couple of pages in *Capital* volume 3 and adding others.[10] The discussion below outlines Grossman's treatment of countertendencies that went beyond the domestic economy under the headings he employed: foreign trade, monopoly, and capital export.

Foreign trade

In assessing the implications of foreign trade, Grossman built on an analysis already apparent in his first surviving work on economic crises, presented in 1919. In an argument directed against the recently murdered Rosa Luxemburg, without mentioning her name, he rejected the hypothesis that 'sees in the existence of non-capitalist foreign markets an indispensable condition for realizing' surplus value'. His implicit basis was Otto Bauer's use of the production schemes in *Capital* volume 2 to demonstrate that capital accumulation is possible without recourse to her 'third persons'.[11] In a study of the thought of the 18th century Swiss economist Simonde de Sismondi in 1923, and a demolition of Fritz Sternberg's book on imperialism in 1928, Grossman made a similar point. These and an essay specifically devoted to the topic, also

5 Marx and Engels 1970.

6 Kautsky 1975; Luxemburg 1963. Kautsky wrote about imperialism over a period of more than 40 years. Even before he shifted his position, shortly before World War I, to argue that there was no necessary connection between imperialism and war, his accounts of imperialism not always consistent.

7 Hilferding 1910; Bukharin 1973; Lenin 1977, p. 679.

8 Grossmann 1970, pp. 296-297.

9 Grossmann 1970, p. 300, Grossman's emphasis.

10 Marx 1981, pp. 344-346.

11 Grossman 2000, p. 175.

developed the comments on method in the 1919 presentation: in *Capital*, Marx abstracted from concrete but less important aspects of capitalism, during the early stages of the analysis of the system's fundamental dynamic, before reintroducing them later.[12] In his critique of Sternberg, Grossman prepared the ground for his extensive discussion in *The law of accumulation*, arguing that the fundamental cause of economic crises is that capital accumulation itself undermines the valorization of capital (the creation of new value). Foreign trade is only one of a series of factors which can, for a time, blunt this contradiction.[13]

The law of accumulation included extensive criticisms of Luxemburg's assertion that imperialism is capitalism's response to the need to realise surplus value. On the contrary, colonialism was driven by the need to exploit labour and create surplus value. This was even true of early capitalist colonialism from the 15th century.[14]

In his 1919 lecture, Grossman had drawn attention to the importance of grasping the contradictory unity of capitalist commodities as 'use-values', with particular material characteristics, and as 'values', the products of commodified human labour.[15] Now he stressed that 'By increasing the multiplicity of products foreign trade has the same impact as product diversification on the home market. An increasing variety of use values facilitates accumulation and weakens the breakdown tendency.'[16] The production of new kinds of use values expands the scope for creating surplus value.

Foreign trade raises profit rates by allowing greater economies in the scale of production and distribution. With increased output, a reduction of production costs through the use of specifically designed machinery and equipment on the one hand, and the training of more expert workers, on the other, become possible. The same is true for both the transportation of greater volumes of an industry's raw materials and final products. An increased scale of distribution makes it possible to eliminate intermediaries, who take their cut, and so to reduce unproductive expenditure.[17]

The transformation of values into prices of production, through the equalisation of profit rates across different industries, does not only occur within national economies. The formation of a world rate of profit means that trade involves the transfer of surplus value from less to more developed countries. Commodities produced with a lower organic composition of capital sell below their value, while those produced with a higher organic composition sell above theirs. This was a rigorous formulation of a theory of 'unequal exchange', a term Grossman used long before the idea became fashionable in the 1970s. As early as the middle ages, as Marx had pointed out, unequal exchange between town and country was a primary source of accumulation of capital in the towns. 'The further development and extension of the capitalist mode of production from the urban to the world economy did not change the nature of this kind of price formation but rather developed it fully.'[18]

> At advanced stages of accumulation, when it becomes more and more difficult to valorise the enormously accumulated capital, such transfers [from less to more developed countries] become a matter of life and death for capitalism. This explains the virulence of imperialist expansion in the late stage of capital accumulation. Because it is irrelevant whether the exploited countries are capitalist or non-capitalist — and because the latter can in turn exploit other less developed countries by means

12 Grossman 1924, pp. 9-10, 13, 15-17; Grossmann 1928; Grossmann 1929.
13 Grossmann 1928, p. 185.
14 Grossmann 1992, pp. 162-163, Grossmann 1970, pp. 396-415.
15 Grossman 2000.
16 Grossmann 1992, pp. 165-166.
17 Grossmann 1992, pp. 166-168.
18 Grossmann 1970, p. 434.

> of foreign trade — accumulation of capital at a late stage entails intensified competition of all capitalist countries on the world market. The drive to neutralise the breakdown tendency through increased valorisation takes place at the cost of other capitalist states. *The technologically and economically more developed country appropriates supplementary surplus value at the expense of the more backward country*. In addition to more acute pressure on wages and class struggle against the working class, the accumulation of capital produces an ever more destructive struggle among capitalist states, a continuous revolutionisation of technology, rationalisation, Taylorisation or Fordisation of the economy — all of which is intended to create the kind of technology and organisation that can preserve competitive superiority on the world market.[19]

Against Luxemburg (and contemporary third worldists), Grossman pointed out that the industrialisation of agrarian countries does not intensify capitalism's tendency to breakdown because surplus value can no longer be realised. 'On the contrary, industrialisation signifies an *increase in the possibilities for exports*' from developed capitalist countries.[20] Industrialised, not agrarian countries are the most important trade partners of other industrialised countries. This explains the growing international synchronisation of booms and slumps.[21]

Monopoly

While Britain was pre-eminent as the most industrialised country on the world market, it had a monopoly of the benefits of foreign trade outlined above. As German and the United States industry began to challenge Britain from the 1860s, 'feverish competition broke out on the world market to exclude opponents and to secure the transfer of value for one power alone' by means of world monopolies over raw materials. If a monopoly exists in an industry then, instead of the price of a raw material falling as productivity in the industry rises, a monopoly can keep the price high and extract super profits at the expense of its customers. With the development of the productive forces a greater and greater mass of raw materials is processed by each worker. For this reason and because the areas in which many can be produced are limited while they have diverse applications, the possibilities for world monopolies of raw materials are particularly great. Furthermore, a raw material monopoly is exercised by one country, customers in others have to pay more for vital inputs. The country exercising the monopoly is therefore also in a better position to dominate industries higher up the chain of production.[22]

> Through monopolistic rises in prices, supplementary surplus value is pumped from outside into the economy of the country with the monopoly and consequently the breakdown tendency is weakened. For countries against which the monopoly is exercised it is the other way round and the tendency is reinforced. On the basis of this theory, imperialist expansion is directly understandable. Economic domination of large colonial territories and at the same time their monopolistic management secures important raw materials for industry and at the same time weakens the monopolies of hostile competitors.[23]

Grossman's main examples were drawn from the experience of the United States, the victim of several British monopolies in raw material producing industries. Thus sugar was an important element in the colonisation of Cuba and Hawaii.[24] The oil industry was (and is) the preeminent

19 Grossmann 1992, p. 172, lacks part of this passage; Grossmann 1970, p. 438.
20 Grossmann 1970, p. 443.
21 Grossmann 1970, pp. 441-449; Grossmann 1992, pp. 173-174.
22 Grossmann 1970, pp. 450-454; Grossmann 1992, pp. 174-176..
23 Grossmann 1970, pp. 466-467.
24 Grossmann 1970, pp. 462-470.

arena of conflict amongst imperialist powers, then particularly between the USA and the British empire.[25]

Capital export

'The fact of capital export', Grossman argued 'is as old as modern capitalism itself. The scientific task consists in explaining this fact, hence in demonstrating the role it plays in the mechanism of capitalist production.'[26] It was not enough to explain capital export, as Hobson did, in terms of the lack of profitable investment opportunities at home: 'why are profitable investments not to be found at home?' Varga, Bukharin, Hilferding and Bauer argued that higher rates of profits could be made abroad than at home. Again, they did not explain why.[27] Bauer's assertion that profit rates are higher in less developed countries forgot his own recognition of the formation of a world rate of profit which, he had himself recognised, entails unequal exchange in favour of countries with a higher organic composition of capital. Grossman also pointed out that the organic composition of capital is not always lower in the less developed parts of the world. Without using the phrase, he identified the process of combined and uneven development, whereby in such areas investment takes the form of 'European capital in the most mature forms it has already assumed in the advanced capitalist countries. In this way they skip over a whole series of historical stages, with their peoples dragged straight into gold and diamond mines dominated by trustified capital with its extremely sophisticated technological and financial organisation.' This was also apparent in the oil industry.[28]

'Nor does Lenin sufficiently explain theoretically the problem of capital export, even though he makes many acute observations on the topic'. These included the recent shift from the typical export of commodities to the now typical export of capital with the domination of monopolies; superfluity of wealth in the most advanced countries; and close links between regimes, high finance and industry.

> This interesting account does not, however, go beyond empirically identifiable connections, in particular, we find in Lenin, which may be explained in terms of the popular character of his text…, no theoretical analysis of the facts which would demonstrate to us the *necessity* of capital export under high capitalism. Lenin limits himself to the bare intimation that 'The need to export capital arises from the fact that in a few countries capitalism has become "overripe" and (owing to the backward state of agriculture and the poverty of the masses) capital cannot find a field for "profitable" investment'. What this over ripeness consists of and how it is expressed, that Lenin has not demonstrated to us.[29]

Aware of the Communist movement's canonisation of the Russian leader, Grossman was diplomatic in his criticisms. Later, the total Stalinist deification of Lenin that placed him above any criticism at all led Grossman to caution Bill Blake, then working on his own account of imperialism, that 'In your book you should *avoid any direct criticism* of Lenin. You can make your different view clear, without attacking him—otherwise your book will be doomed as heretic. You can say "older Marxian theorist told this that. Today situation is changed"[sic], etc.'[30]

25 Grossmann 1992, pp. 176-178.
26 Grossmann 1970, pp. 490-491.
27 Grossmann 1970, pp. 497-516; the abbreviated English translation does not mention Bukharin, Grossmann 1992 pp. 180-185.
28 Grossmann 1992, pp. 182-183; Grossmann 1970, p. 507.
29 Grossmann 1970, pp. 519-520.
30 Letter from Grossman to Blake, 10 July 1947, Box 17 Folder 125, Christina Stead Collection, National Library of Australia.

Grossman associated the export of capital in the form of loans, credits and speculative investments with 'absolute overaccumulation' at home, when increased investment produces the same or less surplus value than before. Profits are still being made, but additional investment is pointless.[31] This is the key argument of the second chapter of *The law of accumulation*.[32] In a model of capital accumulation, derived from Bauer, when further capital accumulation leads to a reduction in the capitalists' own consumption 'instead of accumulating the surplus value… — that is, incorporating it into the original capital — they will earmark it for capital export.' In this 'state of capital saturation', '[w]ith no chance in production, capital is either exported or switched to speculation', which can itself be understood as 'inner capital export'. Contrary to the arguments of Varga, Bukharin, Hilferding and Bauer, 'Not higher profits abroad, but a shortage of investment outlets at home is the basic underlying cause of capital export.'[33]

Capital exports raise profit rates at home in several ways. By tying trade to loans, local industry can gain orders for exported commodities at high prices and exclude competitors backed by other states or financial institutions. This is a logic behind many 'aid' programs. Capital exports are also part of the process of securing sources of raw materials and a means of extracting tribute from states which have borrowed in order to deal with economic problems.[34] Grossman concentrated his subsequent analysis on foreign loans as a means by which lenders get a cut of surplus value produced abroad.

'In the course of the history of capitalist development the "condition of saturation" described above was not reached by individual states at the same time.' Consequently the timing of their recourse to capital export and wild speculation differed, according to the level of capital accumulation reached, in the framework of the existing forces of production, territorial scope and the business cycle. 'As everywhere and always unemployed, liquid capital led to speculation, so we also see in Holland, already during the 17th century the powerful development of stock market speculation.' With too small an area to offer scope for heaped up capital, in the course of the 18th century, Holland developed into a rentier state, through loans to foreign regimes and plantation owners.[35]

The rapid expansion of capital export in the form of loans was a consequence of the high levels of capital accumulation reached by Britain in the 1820s, France in the 1860s Germany in the 1880s and the United States in the 1920s.[36] As Grossman pointed out later, as early as 1805 William Playfair already identified the process at work in English capitalism. Playfair argued that countries reach a point in their development from poor agricultural producers to rich industrial nations when more capital is available than can be profitably invested. This, he maintained, was typical for modern nations at a particular stage of development and ushered in a period of moral and economic decline. By drawing attention to counteracting tendencies in capitalism which might, particularly when promoted by government, postpone the primary tendency to suffer disintegration and decay, Playfair reconciled this conclusion with his conservative political inclinations. His counteracting tendencies were 'export of commodities and of capital, decentralization of capital, further various forms of unproductive expenditure and

31 Grossmann 1992, p. 187.

32 See Grossmann 1992, pp. 74-82; and the exposition of Grossman's argument in published and unpublished works in Kuhn 2004 and Kuhn 2006.

33 Grossmann 1992, pp. 189, 191, 193; Grossmann 1970, pp. 531, 536-537. Grossman was particularly critical of Hilferding's account of speculation, which did not place it in the context of the business cycle, see Grossmann 1992, pp. 191-192.

34 Grossmann 1970, pp. 527-529.

35 Grossmann 1970, pp. 531-533

36 Grossmann 1970, pp. 531-562. The English edition does not deal with the history of capital export, only giving the example of the USA, Grossmann 1992, pp. 192-193.

waste'. The most effective was the export of capital. Alternatively, if capital was invested at home, the resulting products had to be exported.[37]

Grossman noted that '[o]nly at the beginning of the twentieth century was the problem raised again by J. A. Hobson, whose work gave rise to a whole literature.'[38] For, during the late 19th century, the proliferation of developed countries had created a new situation.

> Lenin was quite correct in supposing that contemporary capitalism, based on the domination of monopoly, is typically characterised by the export of capital. Holland had already evolved into a capital exporter by the close of the seventeenth century. Britain reached this stage early in the nineteenth century, France in the 1860s. Yet there is a big difference between the capital exports of today's monopoly capitalism and those of early capitalism. Export of capital was not typical of the capitalism of that epoch. It was a transient, periodic phenomenon which was always sooner or later interrupted and replaced by a new boom. Today things are different. The most important capitalist countries have already reached an advanced stage of accumulation at which the valorisation of the accumulated capital encounters increasingly severe obstacles. Overaccumulation ceases to be a merely passing phenomenon and starts more and more to dominate the whole of economic life.[39]

This assimilation of Lenin's position to Grossman's own was followed by an implicit critique of *Imperialism, the highest stage of capitalism*, in the form of an attack on one of its key sources, Hilferding's *Finance capital*. Hilferding was mistaken in arguing that that finance capital was an historical tendency of capitalism. Rather, the preponderance of banks was only true of a particular phase of capitalist development. At low levels of accumulation industry did rely on funds from outside, mobilised by banks. But, at higher levels of accumulation, industry tends to become self-financing. 'Finally in a third phase industry finds it progressively more difficult to secure a profitable investment, even of its own resources, in the original enterprise. The latter uses its profits to draw other industries into its sphere of influence', by means of the money market. Industry dominates the banks.[40]

Hilferding's arguments, when he was for periods Germany's finance minister during the 1920s, inimical to both Grossman's and Lenin's conception of capitalism and the struggle for socialism, were also attacked: 'The historical tendency of capital is not the creation of a central bank which dominates the whole economy through a general cartel, but industrial concentration and growing accumulation of capital leading to the final breakdown due to overaccumulation':[41]

> The more free competition is replaced by monopoly organisation on the domestic market, the more competition sharpens on the world market. If a river's flow is artificially blocked with a dam on one side of the stream, it presses on with even less restraint on the side that is still open. Whether accumulation of capital within the capitalist mechanism occurs on the basis of competition amongst individual entrepreneurs or a series of cartelized, capitalist production associations struggling against each other is irrelevant for the emergence of the tendency to break down or crisis.[42]

Grossman in 1937 also identified tariff walls and abandonment of the gold standard, as countries sought to reduce the prices of their products through currency devaluation and regulation, were

37 Grossman 1948, pp. 79-81.
38 Grossman 1948, pp. 75-76.
39 Grossmann 1992, pp. 194, 197; also see Grossmann 1970, p. 527.
40 Grossmann 1970, p. 574; Grossmann 1992, pp. 199-200.
41 Grossmann 1992, p. 200; see Hilferding 1982.
42 Grossmann 1970, p. 606.

forms of international competition that split the world market into separate territories. Devaluations also served to undermine wages in countries with strong trade unions.[43]

During the long boom from the 1950s to the early 1970s counterveiling factors clearly overwhelmed capitalism's breakdown tendency. It was a period of rapid investment both at home and abroad. But the domestic program of neo-liberalism during the subsequent period fits the pattern Grossman described in 1929, when he anticipated a severe global crisis. He argued that capitalism's breakdown tendency leads increasingly desperate ruling classes to initiate struggles to restore profit rates at the expense of the working class. At the same time the devalorisation of capital through crises—like those that afflicted eastern Europe after the collapse of the Stalinist regimes, the Asian economic meltdown of the late 1990s and Argentina's collapse in 2002—can for a time revitalise profit rates. The role of cheap Chinese commodities, US efforts to monopolise oil supplies, the phenonomenal scale of global financial flows and conflicts over exchange rates, suggest that Grossman's observation about imperialism is also relevant again:

> It is also, therefore, clear that the struggle over spheres for investment is also the greatest danger to world peace. That this does not involve prediction of the future should be clear to anyone who studies the methods of 'Dollar Diplomacy' with the appropriate attention.[44]

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43 Grossmann 1985, pp. 417-420. I am grateful to Tobias ten Brink for pointing this out to me. Also see letter from Grossman to Max Horkheimer, November 6 1936, Horkheimer 1995, pp. 713-714.

44 Grossmann 1970, p. 572; an abbreviated discussion of the issue is in Grossman 1992, p. 197.

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