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RESEARCH ARTICLE



Marxian Analysis of Capitalism and Crises

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ABSTRACT

The subject of economics, which was once famous for several views and schools of thought, has been limited to just one school neoclassical: where markets usually find equilibrium, meaning government intervention is not needed, and any such intervention could hinder the economic growth process and smooth functioning of the economy. The neoclassical theory focuses on the behaviour of individual agents, which are assumed to be economic decision-makers. There is an attempt to emphasise the importance of the Marxist approach to analysing capitalist crises logically and historically. The study of economics must stay close and keep unity between different social sciences, especially sociology, political science, and history, which classical economists had established but marginalist economists had tried to undermine. The study concludes that economics is embedded in society and politics, and the mainstream school of thought ignores this. They cannot effectively address the main economic issues of our times, which include combating rising inequality, economic and environmental crises, and biodiversity loss.

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Introduction

Currently, the economics discipline is confused, as its dominant economic thought and policy, i.e., neoclassical, is under attack, not least since the 2008 financial crisis but also the environmental crisis and widening disparities between the rich and poor countries. The global financial crisis of 2008 presented a challenge, not just to deepening the economic and financial crisis but also to teaching economics in developed countries. There was widespread criticism regarding how the economics curriculum over the years has become narrower. The subject of economics, which was once famous for several views and schools of thought, has been limited to just one school—neoclassical—where markets usually find equilibrium, meaning government intervention is not needed, and any such intervention could hinder the economic growth process and smooth functioning of the economy. The neoclassical theory focuses on the behaviour of individual agents, which are assumed to be economic decision-makers. These agents seek to optimise explicit goals “to make the most effective use of resources.” The decisions of individual agents must be balanced, which is called equilibrium (Dow 2011).

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The neoclassical economic theories and their abstract models, despite the elaborate mathematical reformulations, consider economics a branch of mathematics; however, this kind of economic idea differs very little in its fundamentals from what Karl Marx described, nearly one and a half centuries ago, as a “vulgar economy,” which according to him is based on: individual preferences, satisfaction, prices, demand, supply, and exchange. Neoclassical economists emerged in the last quarter of the nineteenth century as a response to working-class organisation and to criticise Marx’s radical critique of capitalism (Siddiqui 2020). Their theories are very subjectivist and assume society is a collection of individuals whose nature is to be predetermined independently of social and class phenomena. They see society as a sum of individuals rather than the individual as a part of society and ignore how, in recent years, excessive marketing by a handful of corporate monopolies has influenced public opinion and expanded their market size, thus building monopoly power (Dowd 2000).

The article discusses about primitive accumulation in colonial and post-colonial societies. It shows how exploitation, violence, and different types of labour have shaped capital accumulation throughout the history of capitalism. Various studies on crises in capitalism (Harvey 2005; Patnaik and Patnaik 2016) have recognised a continuous driving process behind capitalist accumulation. Capitalism produces the material conditions that lead to expansion and ensure its preservation as a system. Capitalism always needs to grow, even if it means surpassing its limits.

Marx believed that primitive accumulation is a key feature of capitalism, where money is turned into capital and surplus value is produced. Capitalist production turns goods into value, which is only possible by means of the “complete separation of the labourers from all property in the means by which they can realise their labour.” Marx argued that primitive accumulation needs separation of producers from the means of production. Industrial capitalism began in England by stripping direct producers of the means of their own social and physical reproduction and hence, the creation of workers free to sell their labour power.

There is an attempt to emphasise the importance of the Marxist approach to analysing capitalist crises logically and historically. The study of economics must stay close and keep unity between different social sciences, especially sociology, political science, and history, which classical economists had established but marginalist economists had tried to undermine. Karl Marx’s labour theory of value emphasises how prices are determined, and according to the labour theory of value, the economic value of a good or service is determined by the total amount of “socially necessary labour” required to produce it. It explains the origin of profit in production rather than in exchange. Two opposing theories of value have dominated the history of Western thought: the marginalist and Marx’s labour theory of value. Karl Marx’s labour theory of value explains that “the mode of exchange of products depends upon the mode of exchange of the productive forces.” He explains, “[w]hy is labour the source and substance of value?” Marx in *Capital* identifies the commodity as the elementary form of capitalistic wealth, “The wealth of societies in which the capitalist mode of production prevails appears as ‘an immense accumulation of commodities’; the individual commodity appears as its elementary form. Our investigation, therefore, begins with the analysis of the commodity” (Marx 1978, 125). Marx begins by observing a point of contrast between capitalist and other societies. For instance, in contrast to all other societies, under capitalism, commodities are predominantly available

on the market as commodities. Marx stresses that value in money terms misleads people as to where value is located or the real value of the commodity.

Another school of thought, namely, the heterodox school of thought, having plural ideas and based on a multidisciplinary approach, can assist us in more deeply understanding complex problems rather than relying on the narrow perspective provided by neoclassical economists, which is based on markets and consumers. The teaching of economics should use multiple methodological approaches to show more tolerance for the application of methodological pluralism and institutionalism and present a robust critique of the unequal global economic power structure (Dow 2011; Chang 2014).

An understanding of the present global power structure, the role Europe and North America have played since the slave trade, the colonisation of the rest of the world, and historically, how capital accumulation from external plunder has financed the modernization of North America and Europe. For example, British rule in India lasted for two centuries, i.e., 1749–1947, and within this period, India's per capita income and population remained stagnant while the occurrence and intensity of famines rose and millions of lives were lost. The average life expectancy remained below thirty years, despite Britain dominating the world and remaining a prosperous country, while more than 90% of Indians remained illiterate. Moreover, in the agriculture sector, the cultivation of cash crops was encouraged to export to Europe, which led to a fall in food production and, thus, the availability of per capita food grains (Siddiqui 2019a).

Studying the market in isolation does not explain the historical developments that have affected most people in the world. The market is inefficient. Capitalism has too many risks, and externalities can be very large in financial institutions and can affect the whole country. Risk-taking is under-priced. As a corporate CEO (Chief Executive Officer) who is compelled to maximise profits while ignoring externalities, it means that under capitalism, the impacts on others are not fully taken into consideration. Rational behaviour is a very crucial assumption in the neoclassical model without any empirical evidence. The value could not be foreseen in the 2008 financial crisis due to the assumption that consumers are rational. Whenever the free market fails, it needs a bailout by the government.

Capitalism and the Market Question

Karl Marx (1956) in volume 2 of *Capital* discussed the circulation of capital, i.e., the “reproduction scheme.” A capitalist economy is one where there are only two classes, namely capitalists and workers. According to Marx, the value of a commodity consists of constant capital (machinery, raw materials, etc.), variable capital (wages), and surplus value (rents, interests, and profits). All commodities can be classified as producing either means of production (Department I) or consumer goods (Department II). For the capitalist system to run smoothly, the total demand must equal the output of that department. Marx called it simple reproduction, where all production is consumed. Then he moved to expanded reproduction, where he assumed that capitalists do not consume their entire income but save some part and invest. The surplus is convertible into capital and comprises both capital and wage goods. The use of surplus enables production to be expanded for the next production cycle (Patnaik 2002).

In addition to capitalist expansion, Marx mentioned that primitive accumulation also depends on the external expansion of capitalism, i.e., colonialism. Marx notes,

The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the aboriginal population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of black-skins, signalled the rosy dawn of the era of capitalist production. These idyllic proceedings are the chief momenta of primitive accumulation. (Marx 1978, 823)

Rosa Luxemburg tried to add to Marx's analysis that capitalism must be seen not only as exploiting workers but also as people living in non-capitalist countries. She showed that the expansion of capitalism (i.e., capital accumulation) relies on the exploitation of non-capitalist countries. She argued that capital accumulation cannot be explained by a theory that treats the capitalist economy in isolation. Since the surplus value is set aside for providing additional capital, which cannot be realised through sale to either capitalists or workers within the capitalist economy, it must try to resolve it outside the capitalist economy. As Luxemburg noted the realisation of the surplus value,

[it] requires, as its prime condition, ignoring, for simplicity's sake, the capitalists' fund of consumption altogether—that there should be strata of buyers outside capitalist society. Buyers, it should be noted, are not consumers since the material form of the surplus value is quite irrelevant to its realization. The decisive fact is that the surplus value cannot be realised by the sale of either to workers or to capitalists, but only if it is sold to such social organisations or strata, whose own mode of production is not capitalistic. (Luxemburg 2003, 351–352)

She described that capitalist penetration includes all kinds of repressive methods, including military attacks and colonial occupation, to subjugate and control the non-capitalist markets (Luxemburg 2003).

The surplus value must be realised that is in turn into money before it can be used to hire additional workers and in machinery. Luxemburg suggested the new demand might come from a natural increase in population. She highlights the existence of non-capitalist countries within capitalist countries. She emphasised that in the late 19th and early 20th centuries, each capitalist country fought to control overseas markets and resources. Luxemburg's work focused on the rationale of capitalist colonialism. She applied Marx's schemes of expanded reproduction to find a rationale for capitalist investment without postulating that capitalists made profits by selling commodities to pre-capitalist sectors. She visualised that the pre-capitalists could be in foreign countries or within the country. According to her, the realisation of surplus value and accumulation and expanded reproduction are impossible insofar as one is dealing with a purely capitalist society. Luxemburg seems to have underemphasized the importance of technical progress under capitalism and the anarchistic behaviour of individual capitalists. Luxemburg said that capitalism needs to constantly expand into pre-capitalist areas to access new supply sources, markets, and the reserve army of labour (Amin 1977).

At the beginning of the 20th century, Rudolf Hilferding, Rosa Luxemburg, Nicholas Bukharin, V. I. Lenin, and others wrote about imperialism and saw it as a new phase of history. This was also the period of the rise in inter-imperialist conflicts to control markets, raw materials, and overseas investments. The concentration of economic power in the hands of big corporations to limit competition was intensely taking

place. And a handful of European powers were determined to keep control of the colonies to exploit resources. Hilferding pointed out how financial capital is increasing its control over industries. By the end of 19th century, Hilferding saw that the emergence of long-term debt markets allowed the capitalists to refinance his short-term bank borrowing with long-term bonds. This meant that those capitalists with access to long-term finance could overcome to a bank credit squeeze. According to him, the relation with the capital markets forms the essence of monopoly capital and this means that big businesses could stabilise their finances through access to the capital market and the use this power to grab large proportion share of the surplus generated in the economy (Hilferding [1910] 1981). He meant that capitalism has moved into a stage that is dominated by finance and banks rather than by industrial capitalists. Capitalism increases military spending not only to defend their colonial possessions but also to expand aggregate demands (Lenin 1977).

Rosa Luxemburg (2003) argues that a capitalist economy needs exogenous stimuli, which are different from endogenous stimuli, for sustained growth. Endogenous stimuli are described as stimuli for increased productive capacity that arise from the domestic economy. The growth in the economy creates expectations of future growth, and thus investors anticipate the expansion of the economy and decide to invest, and thus the economy would expand mainly due to inner stimuli. However, during the recession, investments are reduced, and productive capacity is cut, and as a result, the economy slows down. The capitalists are less optimistic about growth and, hence, will not make plans to invest and expand in a productive capacity (Siddiqui 2019b).

However, exogenous stimuli could prevent the economy from stagnating and thus help to raise growth. The deficiency of aggregate demand could discourage capitalists from investing. Therefore, the importance of exogenous stimuli becomes crucial due to deficient domestic demands. The exogenous stimuli include pre-capitalist producers, innovations, defence, and state expenditure. Rosa Luxemburg suggested that the availability of the pre-capitalist markets in the colonies could solve this problem. “Accumulation through encroachment” is different from “accumulation through expansion.” While the latter relies on the addition of new capital stock to what already exists, the former entails the acquisition by capitalists at low prices of already existing assets belonging to pre-capitalist producers and belonging to the public sector.

Lenin’s (1977) classic study more than a century ago, “Imperialism, the Highest Stage of Capitalism,” used the term modern imperialism or simply imperialism to refer to the age of concentrated capital, during which the entire world was being carved up by the leading states and their corporations, distinguishing the imperialist stage from the colonialism of the mercantilist and freely competitive stages of capitalism that preceded it (Siddiqui 2022a). The new imperialist stage, beginning in the last quarter of the nineteenth century and extending into the twentieth century, was seen as a product of the growth of giant capitalist firms with monopoly power, the close connection forged between these corporations and the nation-states in which they arose, and the resulting struggle for control of the resources—leading to inter-capitalist competition and war.

For Lenin, imperialism was not, therefore, a “policy” adopted by governments but arose out of tendencies that were inherent in capitalism. While Kautsky argued that as blocs of finance capital came to dominate ever larger parts of the world, they might eventually unite in the form of “ultra-imperialism,” what he called the “joint exploitation of

the world by internationally united finance capital” (Meldolesi 1984). The big powers would no longer need to go to war to settle disputes. Harry Magdoff characterised capitalism in the 1980s as “late imperialism,” meaning greater control by the MNCs (Multi-national Corporations), the rise of financialization, economic stagnation, and a growing environmental crisis. The period of late imperialism, according to him, was dominated by monopoly-finance capital and economic stagnation, declining US hegemony, and rising global conflicts (Magdoff 1969; Patnaik and Patnaik 2016).

Imperialism is explained as a form of economic domination of one country against another. Colonisation of other regions begins with economic and political dominance, which historically was the starting point of imperialism. Capitalism is not merely about the establishment of private ownership of property and the hiring of wage labour with the sole purpose of obtaining surpluses. Such views see capital as static, but they ignore the intrinsically dynamic nature of capitalism, where competition and demands for higher profits result in the need for external stimulus for the reproduction of capital.

This means that capitalists are constantly seeking new regions to expand their markets and for the supply of cheap raw materials. Indeed, capital accumulation causes increased demand for primary goods, leading to more production. As Patnaik and Patnaik describe,

Imperialism is an actual historical phenomenon that no doubt entailed many things, including the dispossession of Amerindians, the original inhabitants of the temperate lands of the new world so that the displaced petty producers and peasants of the metropolis unabsorbed by metropolitan capitalism could migrate here. But even though these phenomena, such as the dispossession of the original population, may come to an end, as they did after a while, the imposition of income deflation on the periphery so that tropical goods can be obtained by the capitalist sector without any threat of an increasingly high supply price, continued to abate. This relationship that existed at the inception of capitalism, that exists today, and that will continue to exist as long as capitalism remains. (Patnaik and Patnaik 2016, 148)

According to Foster (2019), recognising the continuity with earlier phases of imperialism is as crucial to our understanding of the present as our awareness of the distinguishing characteristics of the current phase. Each historical phase of imperialism relies on different means of exploitation and expropriation to feed accumulation on a global scale. Imperialist countries at the core of the system invariably attempt to restructure labour in the capitalist periphery (or in the precapitalist external areas) to reinforce power and accumulation at the centre of the system. At the same time, the core imperial nations are often in competition with each other for global spheres of influence.

With the rise of monopoly-finance capital, the world has entered a new phase of imperialism, late imperialism, rather than a superseding of imperial relations. Late imperialism, as we have seen, represents an epoch in which the global contradictions of the system are revealed in ever starker forms and in which the entire planet as a place of human habitation is now at risk—with the catastrophic effects falling disproportionately on the most vulnerable of the world population. All of this is bound to generate greater geopolitical conflict as capitalism’s failure as a society becomes evident (Panitch and Gindin 2013).

In short, the concept of imperialism has been defined for more than a century; however, to make it simple, it can be explained as dominated by hegemonic power, and it is a world system where the natural resources are commodified and owned by multinational

corporations for profit-making instead of the wellbeing of the people. The role of imperialist countries is to protect the interests of these global corporations. Joan Robinson (1937, 176) notes, “one of the main effects of orthodox traditional economics was . . . a plan for explaining to the privileged class that their position was morally right and was necessary for the welfare of society.”

Financialization of the Economy

Since the 1990s, the role of the financial sector has grown enormously. The move towards the integration of global economies has been demanded by global corporations. Globalisation and capital liberalisation have expanded the role of finances in both developed and developing economies. The dismantling of national regulation, which was strongly demanded by global finance, has increased the flow of finances.

In the UK, for example, the financial sector has been putting pressure on the government to fully adopt free market policies since the 1990s, which, as suggested, could bring increased levels of competition across the sector. Along with such policies and in an increasingly competitive environment, the banks introduced new innovative products, which culminated in the global financial crisis of 2008. It seems that for global financial corporations, inflation is the main concern and threat (Siddiqui 2022b). As Dow and Dow comment,

The nature of the financial and the power it has wielded have provided scope for the acquisition of rents on a massive scale; these rents are based on valuations that are endogenous to the sector itself. However, the crisis has provoked a public outcry over bonuses for senior bank executives. Governments had to cede power to the financial sector, such that the onset of the crisis created the “too big to fail” problem, requiring taxpayer support. (Dow and Dow 2014, 1350)

The policy of deregulation, privatisation, and trade liberalisation coincided with the reallocation of manufacturing to lower-wage countries in the 1980s (Siddiqui 2015). Moreover, many big enterprises have shifted their focus from their responsibilities to stakeholder communities to stakeholders’ financial returns. This, along with the increased global power of the financial corporations, was reinforced by further removing the legal provisions for the mobility of international capital (Siddiqui 2019c). As a result, this created an exit option for capital, which pressured host countries to adopt market-friendly policies. It was claimed that adopting such policies would enable the building of an efficient, market-based, competitive economy.

Indeed, the flaws of the deregulated policy had profound consequences. Instead of reducing inequality by widening access to capital assets, these innovations in finance and their collapse worsened inequality and failed to build a viable economy and long-term sustainable growth as was initially envisaged (Stiglitz 2013).

The apologists emphasised that financialization has not gone far enough. The government gave in to their demands and allowed financial markets to become even bigger and more sophisticated. One major invention was the securitization of loans via the “originate and distribute” model, in which loans were bundled together and sold off. This allowed the development of pricing for riskier loan commitments and the standardisation and diversification of risks across countries and beyond. In the West, the largest banks have grown so big and accumulated asset sizes that are sometimes greater than their home

country's GDP (Gross Domestic Product). To suit their demands, the based accords were modified to permit the self-assessment of institutional risk, and "shadow banking" surged (Siddiqui 2022a).

Hilferding's and Lenin's study on finance, capital, and imperialism focuses on the ascendancy of finance and its implications for the economy and society. Their study looked less relevant during a quarter of the century post-war boom when finance was strictly regulated. This was also the period when capitalism had to face opposition from the Soviet Union and independence movements in the colonies.

However, with the collapse of the Soviet Union and East European countries and the debt crisis in developing countries, large enterprises and banks have distanced themselves in recent years, while banks have been engaging independently in financial transactions. The banks are making profits from financialized personal incomes. The Anglo-American market is based on financial systems, which are different from German-Japanese financial systems. Indeed, in market-based systems, the share of the open financial market is greater than in banks and industry (Siddiqui 2019b).

Hilferding did not say anything about government intervention in the sphere of finance, but now we see that the government plays an important role in the rise of financialization. It is the governments in the advanced economies that have taken the initiative to support financial deregulation. The government supported the central banks in supplying the banks with bonds, and during the crisis, the government became the ultimate guarantor of the solvency of banks and the stability of the financial system.

Both the studies of Hilferding's theory of finance capital and Lenin's theory of imperialism observe that exclusive trading zones are important to the emergence of territorial empires. However, the current globalised financialized capitalism does not support territorial division but extends support to the free mobility of capital, the removal of tariffs, and a homogeneous institutional framework for trading.

With the move towards financial liberalisation since mid-1995, commercial banks have become more distant from industrial and commercial capital while turning towards individual incomes as the source of profits. This combination of investment banking and financialized personal income led to a huge increase in bubbles in financial institutions in the advanced economies, which finally led to the global financial crisis in 2008. It was visible that extracting profits directly from workers' income has acquired great importance in developing countries in recent decades.

According to Lapavitsas (2009), financialization needs to be seen in the background of hesitant productivity growth, altered work practices, and global shifts in productive capacity. For the last four decades, real accumulation has risen much slower, but finance has grown sharply in terms of employment, profit, size of institutions, and markets. This period coincided with gradual de-regulation, technological and institutional change, and the globalisation of finance. Finance now penetrates every aspect of society in developed countries, while its presence has grown strongly in the developing world. While real accumulation has been performing indifferently, the capitalist class has found new sources of profits through the revamped mechanism of finance. The most prominent development in this respect has been the growth of financial expropriation. Lapavitsas notes,

Marx suggests that loanable capital arises out of idle money generated in the normal course of the operations of industrial and commercial capital. Thus, loanable capital does not belong to a distinct subsection of the capitalist class but is constantly recreated in the course of real accumulation. The main function of the credit system is to mobilise idle funds, transforming them into loanable money capital and channelling them back to accumulation. (Lapavitsas 2009, 142)

Further Lapavitsas concludes,

Financialization, in short, does not amount to the dominance of banks over industrial and commercial capital. It stands for increasing the autonomy of the financial sector. Industrial and commercial capital can be borrowed in open financial markets, thus becoming heavily implicated in financial transactions. Financial institutions have sought new sources of profitability in financial expropriation and investment banking. Meanwhile, workers have been increasingly drawn into the realm of private finance to meet basic needs, including housing, consumption, education, health, and the provision of old age. This has been an era of unstable and low growth, stagnant real wages, and frequent financial bubbles. (Lapavitsas 2009, 146)

Economic Crises and Economic Theories

When we look back on the development of economic views historically, we find that Adam Smith's *Wealth of Nations* (2007) argued beyond the logical derivation to substantive arguments drawn from the nature of things. The key idea was that the real wealth of a nation depends on the real goods produced in the country. Wealth will only rise if either the labour required to produce goods rises or the productivity of labour rises. However, as the total goods produced are heterogeneous and we need a homogeneous measure to compare wealth, this becomes a problem. The nominal value of goods cannot be used as it includes the price element and is illusory. Later in 1817, David Ricardo used a bottom-up approach and was more interested in estimating nominal value by estimating changes in wages, rents, and profits (Siddiqui 2018). Ricardo criticised Smith for moving away from the labour theory of value and using it as a basis for changes in output. Piero Sraffa questioned using an arbitrary commodity to measure value and how the commodity is itself affected by changes in distribution, just like other commodities. But still, Sraffa did not provide an alternate method where a standard commodity could be used as a standard measure of value.

Mainstream economists claim that the creation of surplus value is not the result of capitalist greed but is an expression of the immanent laws of development, where the market is seen as natural rather than historically evolved. They relate not to the labour process, which Marx described as the appropriation of nature, but to the distribution process, or what Marx called the appropriation of the product. According to him, surplus value is equal to the new value created by workers more than their own labour cost, which is appropriated by the capitalist as profit when products are sold. Surplus value is appropriated by the capitalists as owners of capital, and surplus value lies at the heart of capitalism. For mainstream economists, interest remains the reward for sacrifice or abstinence, and it is described as a reward for various kinds of sacrifice, each of which provides a necessary contribution to production, e.g., capitalism foregoes consumption, receiving profit as a reward. Marx stated that surplus value originated in production and not in circulation, and that surplus product represented the surplus or unpaid labour of workers. As a result, their analysis renders a scientific analysis of capitalism virtually

impossible. The mainstream economists are incapable of presenting an analysis of state and social elites' control and influence over key institutions like mass media to use for their class interests (Dowd 2000).

Neoclassical theories emerged from classical theories in the late 19th century due to the so-called “utility revolution.” We should not question the underlying social order. Power is a very under studied area in economics. Mainstream economists always assume that the competitive market is power-free and people make voluntary decisions. They ignore the power of the market (Girdner and Siddiqui 2008). For example, in Bangladesh, where there is a wide prevalence of unemployment when a poor person takes up a job in a chemical factory that might be harmful to his or her health, he or she still accepts it due to poverty. He or she is forced to take up a job that might kill him or her. In this situation, neoclassical economists emphasise that the desperate poor person taking a job is a “free choice” and assumed to be not under compulsion. But they ignore the fact that his or her dire economic situation and poverty compelled him or her to accept (Chang 2014).

The mainstream economists simply misunderstand how economies work and the implications of economic policies and processes. Since the 1980s, the neoclassical economists backed by the big corporations and elites of the West have lobbied within the discipline based on half-truths on many critical issues, such as: how the financial sector can be “efficient” without regulation; how “free trade” and de-regulation in foreign investment; and how globalisation can benefit every country. However, the effects of such policies on local industrialization and economic diversification—economic sovereignty, climate change, and ecological damage due to the globalisation of production and mass consumption—are completely ignored. Why is environmental destruction taking place on a large scale? At present, environmental destruction is occurring at unprecedented levels, and a greater role for the markets in resource mobilisation, as advocated by mainstream economists, would mean much worse. Sustainable development is an important goal to save resources, and both the market and the state should play a crucial role in protecting natural resources.

David Ricardo's theory of comparative advantage and mainstream trade theory incorrectly proclaim the universal benefits of trade. Such theories ignore the historical facts that in the 18th and 19th centuries, a great deal of trade had been coercive, and brute force was used to implement so-called “free trade” by the European powers (Siddiqui 2018). It is emphasised that there were mutual benefits arising from specialisation and exchange based on the assumption that all countries could produce all goods, which was not true. For example, in 1748, India accounted for 24.5%, China for 32.8%, and the South for 73% of global manufacturing, leaving 27% for the North. However, during the British colonial period in 1913, India's share had declined to merely 1.3%, China's to 3.6%, and the South's to 7.5%, while the share of the North had grown to 92.5% (Simmons 1985). On free trade, Bagchi notes,

[Ricardian theory] was used to justify forcing the colonial and ex-colonial countries to specialise in the production of primary products. The other is how the developing countries were forced to generate a surplus by exploiting them as colonies, and then, after they gained political independence, manipulating them to get indebted to the advanced capitalist countries or financial organisations controlled by them and forcing them to go through a painful process of income deflation to extract the loan-servicing charges from them. (Bagchi 2019, 13)

Four decades of neoliberalism, the economic and financial crisis has increased inequality in most countries. The neoliberals' idea for the prosperity of the world economy is based on free trade and globalisation, meaning the continuation of Western hegemony. Their function is to justify a world economy based on full acceptance of the interests of the dominant countries, and former colonies must open their economies to goods and capital and serve their labour and raw materials to benefit the multinational corporations (Siddiqui 1998). The West seeks to maintain the uneven world development that favours them. The colonies soon after independence found the option for domestic industrialization was only open through state-assisted development using tariffs and industrial policy to build domestic manufacturing.

The critiques of the global financial crisis in 2008 blamed deregulation, financialization, and speculation. However, the understanding of financial crises cannot be fully understood without a critical examination of the capitalist functions of production, distribution, and accumulation. In Marxian political economy, it is crucial to see how capitalist production and distribution influence capitalism in the way it has evolved. The transformation of capitalism from the 19th century, where capitalists' enterprises were owned and controlled by individual capitalists, into 20th-century capitalism dominated by large joint-stock companies in the former, the enterprise was financed by the owner's savings. But in the latter, joint enterprises were able to fund themselves via bonds or equity. This certainly reduced vulnerability to credit shortages (Polanyi 1944).

Capitalism is marked by a deepening crisis. It relies on exploitation, but this becomes less obvious as the relationship between capital and labour becomes deliberately obscured. What Marx and Engels described as "false consciousness" and later Gramsci called "cultural hegemony." The crisis is an essential and inescapable aspect of capitalism. David Harvey (2005) summarises it in seven spheres as capitalism struggles towards accumulation. These include production, labour processes, administrative arrangements, social relations, technologies, relation to nature, reproduction of daily life, and mental conception of the world. Harvey notes,

Capital cannot circulate or accumulate without touching upon each and all these activity spheres in some way. When capital encounters barriers or limits within a sphere or between spheres, then ways must be found to circumvent or transcend the difficulty. If the difficulties are serious, then here too we find a source of crises. (Harvey 2005, 172)

Crises have assumed greater intensity in the recent period, and it seems that since the 1980s, the distinctive feature of the capitalist system is not the markets but a system of production, where the production of commodities is subordinated to the production, appropriation, and accumulation of surplus value (Harvey 2005).

Harvey (2005) says capitalist accumulation based on violence is not a "past act," but a process that permanently repeats itself in the course of capitalist development. He terms this phenomenon "accumulation by dispossession." Harvey argues that financialisation since the 1980s has been one of the primary mechanisms of the contemporary process of accumulation by dispossession in the context of neoliberal capitalism. The increased financialisation promoted a redistribution of wealth from lower-income households to richer social groups. This is evident with the real estate bubbles that occurred in the 2000s in the US, when this brought unprecedented transfers of savings from lower

and middle-income households to banks, forcing these households to surrender their incomes to pay off their debts.

Marx notes that surplus value is not found in the sphere of circulation but in the sphere of production, with which capitalists emerge from production. He finds the concept of “surplus value” is where workers receive less, and some part is taken by the capitalists, and this is a part of the historical process. Any scientific inquiry there must be based on the political economy, which identifies surplus value as a single homogenous category and manifests itself via rent, profit, and interests. David Ricardo wrote about two determinants of prices: the total labour embodied in a commodity and its time distribution in the production of that commodity. But did not pursue the inquiry about the origin of value and surplus value. As Patnaik notes,

If surplus value emerges in the sphere of production, then it follows that capitalism must be characterised by a duality: on the one hand, like all modes of production, it must be characterised by “production in general,” at the core of which is the man-nature dialectic, but in which, since men act socially, the general needs of social production must be met. On the other hand, however, there must be a specific capitalist stamp on the production process, which must be highly sui generis because of the very opaqueness of the mode of production. (Patnaik 2002, 62)

Marx defines capitalism as a system of generalised commodity production where labour power itself has become a commodity. Capitalism produces differentiation among producers. The capitalist who controls large amounts of capital drives out small producers. The surplus value is generated in production; therefore, the capitalists are under pressure to revolutionise their production process through innovations.

On the issue of surplus extraction from India, Bagchi (2019, 720) notes,

[T]he British invested not more than 7–8% of the GDP during the Industrial Revolution. So, its equivalent was drained away from India as it was also deindustrialized. Indian surpluses also played a vital part in balancing the British balance of payments in the Anglo-French wars of 1792–1815. The lion’s share of the usually accepted figure of total British investment of £4,000 million came out of the India-Burma export surpluses. Those surpluses also played a vital part in balancing Britain’s balance of payments because Britain had a large import surplus with the United States, Canada, and Argentina. Moreover, foreign investment supported the biggest migration in history. Somewhere around 48 million Europeans migrated to the temperate lands of the Western Hemisphere, Australia, and New Zealand. The largest number, about 17 million, and the largest proportion of the population, 40.9%, went from the British Isles. (Bagchi 2019, 720)

The process of dispossession of petty producers by the capitalists is the process that Marx called the “primitive accumulation of capital.” This process also took place in the colonies, which is known as de-industrialization. The squeezes of small capitalists and petty producers increased the number of reserve army workers in the colonies, but real wages did not increase beyond the minimum level. When the rise in productivity may lead to a decline in wages, unlike neoclassical economics, Marx’s political economy approach is historical and concerned with the origin of capitalism and looking at it in a historical context.

Neoclassical economics abandoned value theory and presented a subjective basis of value, which determines prices. In a crisis, it is assumed that equilibrium will be restored in the long run. Any possibility of “general gluts” in the market was ruled out. The

capitalists always use the occupation of overseas territories to resolve market questions. The proponents of the free market and free trade, namely Adam Smith and David Ricardo, justified colonial expansion and the division of labour between manufacturing and agriculture. The emergence of overproduction was due to an increase in the rate of surplus value in the sphere of production. Indeed, the very efforts of capital “to reduce the relation of this necessary labour to surplus labour to the minimum” posit a new barrier to the sphere of exchange (Marx 1973, 422). Marx further noted that overproduction arises precisely because the consumption of workers “does not grow correspondingly with the productivity of labour.” Moreover, it is not only workers but capitalists too who could restrict their consumption since they are preoccupied with “the drive for accumulation.” Therefore, they may limit their consumption as they are preoccupied with maximising profits.

Marx emphasised that the conditions for the realisation of surplus value differ significantly from the conditions for producing surplus value. They are restricted by “the proportionate relationship between the different branches of production and society’s power of consumption.” Since the latter exists within the framework of “antagonistic conditions of distribution” that restrict the consumption of most of the population, this is an important cause of the emergence of crises within capitalism (Marx 1978). Marx pointed out that overproduction was the main contradiction of developed economies because of the very nature of capitalism: “The bourgeois mode of production contains within itself a barrier to the free of development, a barrier that comes to the surface in crises, and, in particular, in overproduction—the basic phenomenon in crises” (415). Marx further notes,

The barriers within which the preservation and self-expansion of the value of capital resting on the expropriation and pauperization of the great mass of producers can alone move, these barriers come continually in collision with the methods of production which capital must employ for its purposes and which steer straight toward an unrestricted expansion of production, toward production for its own sake, toward an unconditional development of the productive forces of society. The means, this unconditional development of the productive forces of society, comes continually into conflict with the limited end, the self-expansion of the existing capital. Thus, while the capitalist mode of production is one of the historical means by which the material forces of production are developed and the world market required for them created, it is at the same time in continual conflict with this historical task and the conditions of social production corresponding to it. (Marx 1971, 250)

Here Marx clearly explained the very nature of the capitalist system.

The capitalists increase demands by investing more, which results in further expansion in productive capacity and output, thus exacerbating the problem of realization. Moreover, fearing the realisation problem, capitalists would be reluctant to invest. As Marx noted,

The workers are important for the market as buyers of commodities. But, as sellers of their commodity labour power in capitalist society tends to restrict them to their minimum price. The periods in which capitalist production exerts all its forces regularly show themselves to be periods of over-production because the limit to the application of productive powers is not simply the production of value but also its realisation. However, the sale of commodities, the realisation of commodity capital, and thus of surplus value as well, is restricted not by the consumer needs of society in general, but by the consumer needs of a society in which the great majority are always poor and must always remain poor. (Cited in Desai 2014, 80)

During the mid-1970s, Keynesian economists found it difficult to explain the global economic crisis where inflation, higher unemployment, and economic stagnation prevailed. Under such conditions, the big businesses saw overseas investment as more profitable and chose to move their industries abroad. The recession in the mid-1970s in the advanced economies pushed the internationalisation and financialization of industrial capital. The financial liberalisation and the development of new technology helped the expansion of global finance and have created mechanisms through which the advanced capitalist countries appropriate the resources and surplus value of the peripheries, which remain economically less developed.

Marxian analysis of capitalism explains the rise of inequality and the rapid rise of globalisation from the 1980s onward, pointing to a qualitative change emerging in advanced capitalism. Marxism remains the most appropriate tool by which to understand and address rapidly changing economic structures. The strength of Marxian analysis lies in its integrated materialistic and historical approach.

Since the early 1990s, we have seen the rapid expansion of financial capital, which coincided with the de-industrialization in advanced economies because of the lack of opportunities for productive investment. The financial flow into the peripheries now has less to do with the real economy, and a large proportion of capital is directed into speculative activities, expanding fictitious assets such as real estate, financial, and insurance sectors. The big businesses' cash flow has moved extensively from fixed capital investment to financial investment, and their profits now contribute a large share of the total revenue (Siddiqui 2019c).

On the analysis of conditions for the realisation of value, Toporowski notes,

[T]educing capitalism to a theory of capitalist production and a labour theory of value, in which crises come from under consumption of workers. Key factors in the crisis are supposed to be not so many problems in production . . . but a combination of state policies of neoliberalism, deregulation, and speculation. In the absence of any broader analysis of the conditions for the realisation of value, most Marxists, like post-Keynesian wage-led growth theorists, argue that any realisation problem in capitalism arises because workers are not paid the full value of their labour. (Toporowski 2016, 521)

A distinguishing feature of globalised production and finance in the current century is the systematic exploitation of low unit labour costs in developing countries, which is due to the existence of a huge number of reserve armies and restrictions on the movement of workers between countries. The main feature of neoliberal globalisation was the exploitation of the large pool of unemployed workers in the peripheries. As a result, large sums of value are transferred from developing countries, including capital flights estimated at more than US\$2 trillion in 2015. Such a form of financial transaction between the poor and rich countries includes an element of what Marx called “profit upon expropriation” or simple robbery, reflecting the uneven global power relations. As Norfield (2017) describes finance “is a way for rich countries to draw income from the rest of the world economy.”

Capitalist cycles of boom and crisis were presented by Russian economist Kondratieff (1984), and he argues that it is a long-term economic cycle in commodity prices and other prices, believed to result from technological innovation, that produces a long period of prosperity alternating with economic decline. It states that the period is comprised of waves that spread between forty and sixty years, and the cycles consist of

alternating intervals of high sectoral growth and intervals of substantially slow growth. He argues that the normal business cycles of capitalism are driven by the dynamics of capitalist production and that there are no fundamental differences between these and the major cycles (Patnaik and Patnaik 2016).

The recent collapse of Silicon Valley Bank (SVB) and Signature Bank in the US was due to toxic assets, which were liabilities of the collapsing bank. Of course, the obvious answer would be due to the rise of interest rates in the US. In the case of SVB, within holding a range of assets, bonds were most prominent. The rising interest rates lowered bond prices, which reduced the value of bank assets relative to liabilities. As a result, the bank went under severe pressure. Seeing the crisis, the depositors would leave the bank, which means the value of its equity drops, and this sends adverse signals to depositors to withdraw their funds. In such a situation, if the bank does not take corrective measures, it will collapse. Thus, blaming the banks and ignoring the country's macroeconomic factors is far from the truth.

A small increase in interest rates could be manageable, but when the interest rate increase is substantial, then it would be difficult for the banks. For instance, the US Federal Fund rate increased from 0.25% in February 2022 to 4.75% in February 2023. The sharp rise of interest rates within twelve months made it very difficult to manage its balance sheets (*The Financial Times* 2023). Then the obvious question is why the US Federal Reserve has raised interest rates. The answer is that, under neoliberalism, the only policy tool for the government is to intervene through monetary policy. The Keynesian fiscal intervention policy is not allowed under neoliberal globalisation, as there is a ceiling on the fiscal deficits relative to GDP; therefore, the government is forced to attract foreign investors (Keynes 1949). Moreover, the government cannot raise corporate taxes due to fear that they will leave the country. Hence, the only policy option was to raise interest rates. There was an exception: during the pandemic, fiscal deficits rose in the US, and as a result, prices increased.

Economic Policy and the Developing Countries

Soon after the independence of the developing countries, the dominant form of contemporary development thinking prioritises capital accumulation and economic development. W. W. Rostow's (1960) stage of economic growth theory represented the US attempt to establish US-led global hegemony over the newly independent countries and the building of supportive ruling class alliances across the developing countries. However, such theories conveniently ignored the violence, poverty, and famines in the colonies. The reinforcing of the dominant ideology of development has been imposed as a sub-discipline of development economics, while largely the critique of the vision of development has been ignored or bypassed.

Theories of development economics such as Lewis (1954) and Rostow (1960) provide the foundations for the so-called catch-up, i.e., the attempt to attain the development levels of developed countries. The proponents argued that capital facilitates an increase in labour productivity through the relative surplus-value mechanism. Thus, capitalist relations of production are seen as crucial for the development of productive forces. They were presenting the extension of capitalist relations of production. The diffusionists identify capitalism as a progressive force, and a handful of East Asian

economies are presented as successful evidence to hope for changes in the situations of the peripheries.

Critics such as Paul Baran (1973) and Gunnar Frank challenged these theories. Their criticism was that underdevelopment and poverty are the outcomes of the very expansion of capitalism to “poor countries,” i.e., former colonies that supplied primary commodities to the developed countries, i.e., metropolises. The expansion of productive forces in the regions where the main motor of accumulation is the supply of raw materials to the developed economies Karl Marx saw in the mid-19th century such development in the cases of Ireland and India. In such cases, some kind of development did not lead to the “development” of an industrial kind but to specific capitalist development (Marx 1960).

The mainstream economic theories believe that growth in a region will benefit other regions. Thus, it will bring a general improvement in people’s living conditions. However, such perceptions ignore the policy implications in the peripheries. The metropolis’ control over the peripheries led to the creation of “underdevelopment” and mass poverty. For instance, nearly two centuries of British rule in India saw a decline in real per capita income, deindustrialization, the destruction of handicraft industries, and the deaths of millions of people owing to famines.

Patnaik and Patnaik (2016) point out that Marx could not sufficiently explain how the supply price of most primary commodities, which were externally supplied, was not analysed. In fact, by controlling the prices of these commodities directly or indirectly, advanced capitalism sustained growth. According to them, imperialism enabled this by squeezing money income relative to prices, i.e., income deflation. Such policies played an important role in the industrialization of the British. The mainstream arguments were that the “agriculture revolution” and the rise in agricultural productivity were myths. Soon after the occupation in the late 18th century, the British introduced legislation against India’s exports, and the land rents and taxes as well as the exports of opium were used to finance external trade. However, in India, such policies resulted in the destruction of handicrafts, i.e., de-industrialization and de-urbanisation, and mass poverty and famines. The export surplus was not invested domestically, and simultaneously, land under food production was diverted to the cultivation of cash crops, which resulted in a decline in per capita food consumption.

The economic mechanism to ensure the supply of primary commodities to the core countries at stable prices had been an “income deflation” imposed on the colonies, which restricted the internal demands of such commodities. As Patnaik and Patnaik note,

This has indeed proved to be a highly effective tool and continues to be used even in the absence of direct political control being exercised over southern populations. The resulting decline in the nutritional standards of this population and the rise of the incidence of poverty within it are denied in the existing “mainstream” literature, which follows untenable methods of measuring poverty. (Patnaik and Patnaik 2016, XXII)

Income deflation was imposed in those countries where these primary commodities were. As they further argue,

Capitalism by its nature generates imperialism because it needs an external source to be the very sort of economic formation it is. Though there is no doubt that capitalism originated in the European nations, it was never really a self-standing system isolated from the rest of the

world. Rather, its logic suggests that it did not become capitalism till it found itself to be centred within a much larger system that contained a vast pre-capitalist population of peasants and artisans, etc. (petty producers, to use the Marxist term) in outlying regions that alone produced a range of commodities necessary for the production of capital. (Patnaik and Patnaik 2016, XIII)

Patnaiks stress that industrial capitalism since inception have been linked with the rest of the world through trade and became a global system where the rest of the world, such as artisans, petty producers, peasants, and workers outside Europe, were coerced to produce primary commodities, which were necessary for the reproduction of capital. External expansion and trade were historically important for the rise of capitalism in Europe such as access to food, raw materials, and energy. Internal sources due to climatic limitations were unable to supply these vital commodities. Colonial plunder and the huge transfer of resources gratis to European countries were important to the rise of industrial capitalism. Rosa Luxemburg argued that forcing the non-European pre-capitalist producers into an exchange relationship with capitalism itself involves breaking down their natural economy and self-sufficiency, which occurred with brutal force and coercion. She emphasised that accumulation on such a scale, initially needed during the initial stage of capitalism, would not have been possible without capitalism's interaction with the pre-capitalist sector; this process saw the destruction and assimilation of the pre-capitalist sector.

The capital is increasingly globalised, while the states remain nation-states, which means the states must cater to the needs of global finance. Under current globalisation, capital is drawn from many countries rather than just a few. John Smith (2016) says that under the current globalisation, the competition between workers in the peripheries and metropolitan areas has increased, but the same is not true of competition between the firms of the two regions. The firms from the advanced capitalist countries do compete while establishing companies in low-wage countries on the periphery, but there is no competition between firms from the periphery and core countries.

With the collapse of the Soviet Union in 1989, the US knowingly sought to weaken the country by breaking it up into much smaller countries based on ethnicity and nationalism. Small countries are much easier to manipulate through Western-controlled international institutions like the IMF, the World Bank, and the WTO. In 1989, some hoped that the US might decide to develop the Soviet Union into a single vibrant and economically prosperous capitalist country. However, such a possibility shows a lack of understanding of US history in the late 19th century and its emergence as a dominant capitalist power. The US's role in Central American countries clearly shows us that the US has no interest in poor nations catching up economically (Siddiqui 1998).

On imperialist wars to control resources, Van Zwanenberg notes:

The French wars from 1793 to 1815 ended up with Britain as the leading global nation at that time. The world wars from 1914 to 1945 were the second period where the underlying motive of the major powers was world supremacy. Two agreements that ended the 1914–1918 war at Versailles and 1939–1945 at Bretton Woods ought to leave no doubt in anyone's mind as to the aims of the major powers. Both agreements were dominated by the winners and set out the terms of their control of the world at that moment in history. The Cold War from 1948 to 1989 is another global struggle that can be understood similarly. Many people

hoped that this final struggle would end in global peace. The USA had the option to help Russia rebuild itself or to break up the outlying portions of the Soviet Union into new, smaller states. The USA took this latter option. Thirty years later, events have shown that the expectations for global peace in 1989 were grossly optimistic. The Ukrainian war is the beginning of a new global struggle that will involve everybody for some years to come. (Van Zwanenberg 2023, 23)

Conclusion

The simple reproduction, where everything remains unchanged from one year to the next and it means that the constant capital used up in both departments equals the output of Department I, and the income of workers and capitalists of both departments equal the output of Department II. The difference between simple and expanded reproduction is that in the latter capitalists do not consume their entire income but instead save a part and invest in additional variable and constant capital. It means they hope for new demands for the product.

Rosa Luxemburg contends that capitalism must always resort to a non-capitalist exterior to fully appropriate the surplus value. She asks where the new demands to come from? She saw the existence of non-capitalist countries and the presence non-capitalist sectors within the developed countries such as petty producers, handicrafts, peasants etc. These provides capitalist the buyers and resolves their market questions. Sweezy agrees with Luxemburg that accumulation and consumption are linked in such a way that a positive rate of accumulation depends on a rise of consumption but disagrees where she assumes the logic of the reproduction scheme excludes a rise of consumption by either workers or capitalists or both. Sweezy argues that expanded reproduction involves rising incomes for both workers and capitalists, and there is no reason whatever to suppose that both classes will not spend at least some of the increment on consumption (Sweezy 1967).

The Marxist theory identifies a range of factors that indicate the general crisis of capitalism. These include the concentration of capital, under-consumption, the tendency of the rate of profit to fall, and the development of finance capitalism. The recent Oxfam report and a study by Thomas Piketty show the concentration of wealth in fewer hands. Finance capital is another important contributing factor to the crisis in capitalism. Contemporary capitalist globalisation has increased the influence of advanced capitalist countries to exert further pressure on poor countries (Amin 1977).

Luxemburg says that the surplus of commodities that cannot be sold within the domestic markets and such situations in poor countries could provide a solution to the capitalist accumulation problem. Capitalist economies, when expanding through capital accumulation, do produce a surplus of commodities for which there is not enough additional effective demand from whatever source. Hence, capitalist economies can only grow if there are non-capitalist territories, areas, or people who can provide such additional effective demand.

When Lenin wrote about imperialism in the early 20th century, he observed the emergence of rival imperialist powers, each characterised by a financial oligarchy with the close association of industrial capital, banks, and the state, and these countries then engaged in the partitioning of the world to control new territories. Lenin has put forward

the most authoritative theory to explain the phenomenon of imperialism. He outlined the general problem of armed conflicts in the phase of monopoly capital. He demonstrated that capitalism in the phase of monopoly capital was globally unstable as an international system (Lenin 1977).

I find that the Marxist approach to economics is a comprehensive method that is not inhibited by the boundary lines of academic disciplines. It examines various aspects of social formation in contact with, specifically related to, and shaped by a specific society. The Marxist approach demands that a specific society needs to be studied as historically changing and comprised of antagonising forces, some of which sustain and change society.

During the last four decades, big corporations have turned to open markets for their financial needs, and as a result, banks have started to seek alternative sources of profit. This has been facilitated by the retreat of public provision from housing, education, health, and pensions. The extraction of financial profits directly out of personal incomes, which means financial expropriation, seems to be the emergence of a new rentier class.

The study concludes that economics is embedded in society and politics, and the mainstream school of thought ignores this. In contrast to their inability to effectively address the key economic questions of our times: the economic strategies required to combat rising inequality, the economic crisis, climate change, and the loss of biodiversity, the historical approach understands that economic development is grounded in economic history and institutions that analyse the characteristics of the production of a particular sector size and the distribution of rents in the economy and sectors. We have emphasised the issue of power relations and how they are embedded in institutions and policies. Economic history gives students a long-term perspective on economic conditions and helps contextualise the recent state of the global economy. In the real world, for better application of economic theories, more emphasis should be given to economic history, institutions, and pluralism to develop a curriculum that better prepares economic graduates for the challenges of the modern world.

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