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Updating Rosa Luxemburg:

Capital Accumulation and the 20<sup>th</sup> Century Detour of Statist Socialism

Rosa Luxemburg has been recognized as a political theorist of the left for a long time. Social democrats welcomed her critique of the Bolsheviks, communists remembered her as co-founder of the German communist party and New Lefties drew inspiration from her struggle against the bureaucratization of the labour movement and her uncompromised internationalism. Ironically though, adherents of these different currents of the left, while arguing about pretty much every other issue, found common ground in rejecting her economic works. Authors as different as Otto Bauer (1913), Nikolai Bukharin (1926), Henryk Grossman (1929), and Roman Rosdolsky (1968) claimed that her main argument, according to which the accumulation of capital relies on capitalist expansion into non-capitalist social milieus, was derived from a misinterpretation of Marx' schemes of reproduction. They also charged her with fatalist views about the economic breakdown of capitalism that would lead to spontaneous workers struggles for socialism. A small number of theoreticians is still debating the question whether Luxemburg got Marx wrong or whether there were flaws in Marx analysis of the accumulation process that needed theoretical refinement (Bellofiore 2009, Schmidt 2012a). The charge of political fatalism based on an economistic understanding of capitalist development can't be called anything but wrong. Throughout her writings, not to speak about her political praxis, she made it very clear that class struggle is the driving force of, and potentially beyond, capitalist development. There is good reason to assume that what Luxemburg said about the early critics of her *Accumulation of Capital* (1913) was also true for later critics: "...that there have been other passions touched on, one way or another, than 'pure science'." (Luxemburg 1921, 48).

Whatever the political reasons for the rejection of Luxemburg's economic theories might have been, none of them matter any longer as communism and the New Left are history and social democracy changed beyond recognition. The political changes since the end of the Cold War and the subsequent transformation of social

democracy into neoliberal formations of a new type (Schmidt 2012b) allow a fresh look at all of Luxemburg's writings. What is particularly striking about the Accumulation of Capital, her major economic work, is that it reads as if it was written against the background of neoliberal globalization that followed the Cold War. The impression that her economic theory is relevant to the current condition of global capitalism is reason to suggest a reinterpretation of her entire work.

This article suggests that Luxemburg's economic theory, which she developed against the background of 19<sup>th</sup> century processes of industrialization and colonization, can fruitfully be used to analyse capitalist development all through the 20<sup>th</sup> century and until today. It further suggests that her political theories can't be separated from her economic theories. The key link between them is her understanding of class struggle, which, on the one hand, is a key determinant of economic development and, on the other hand, affects the making and remaking of struggling capitalist and working classes. More specifically, economic development recurrently leads to stagnation and systemic crises. Such crises destroy any forms of consensus that integrated antagonistic classes during previous periods, or long waves, of accumulation. Class struggle intensifies. It creates 'moments of decision' (Bronner 1991) that could initiate a socialist transformation of capitalism or open new social milieus, previously untouched by capitalist relations of production, for capitalist penetration and thus lead to a new long wave of accumulation. These waves of accumulation are complemented by transformations of class composition and class relations that will impact the course of class struggle in the future.

The first part of the article demonstrates that Luxemburg's own analysis of capitalist development links economic and political theories inextricably. The reinterpretation of her work that recognizes the links between capital accumulation and capitalist expansion into non-capitalist milieus on the one hand and class struggle and formation on the other hand is used in the second part of the article for an analysis of the Keynesian wave of accumulation and the emergence of the statist worlds of welfare capitalism, developmentalism and Soviet communism. Considering Luxemburg's dire predictions about the prospects of accumulation beyond imperialist rivalries, wars and revolutions, which were confirmed during the 'age of catastrophe' (Hobsbawm 1995, part 1) from 1914 to 1945, the following 'golden age' (Hobsbawm 1995, part 2) of capitalist development, seem to suggest that a Luxemburgian approach is the last thing suitable to understand these developments. Yet, it will be shown that Luxemburg offers analytical tools allowing

a more complete and consistent understanding of economic growth and the transformation of states and class relations than other analyses of the 'golden age'. The third part of the article explains the transition from statist development to neoliberal globalization from the 1980s until today. This part ends with some conclusions about the prospects of a new socialist project for the 21<sup>st</sup> century.

### Rosa Luxemburg and Capitalist Development in the Long 19<sup>th</sup> Century

As an economist, Luxemburg surely saw capitalist accumulation determined, and recurrently constrained, by aggregate demand. She dealt with cartelization and the emergence of monopoly capitalism, the main focus of Hilferding's (1911) and Lenin's (1916) analysis of capitalism and imperialism, briefly in *Social Reform and Revolution* (1899, 63-65). In the *Accumulation of Capital*, she posits that individual capitals, competing with each other for market share, are not in a position to change the level of aggregate demand that determines the size of the market in which individual capitals compete. This approach is radically different from analyses of monopoly capitalism that imply the possibility for capitalists to free themselves from the law of value and competition as its executor. Sticking to what she sees as orthodox Marxism, Luxemburg recognizes "Marx's fundamental law that the rate of profit tends to fall" and argues that "the growth of the constant at the expense of the variable capital is only the capitalist expression of the general effects of increasing labour productivity." (Luxemburg 1913, 300). She doesn't raise the question whether increasing labour productivity could, if real wages remain constant, raise the rate of surplus value so much that the rate of profit stays the same or even increases (for a brief current discussion of this question see Heinrich 2012, 141-154). Quite obviously she assumes that capital accumulation will come to an end due to insufficient aggregate demand long before a falling rate of profit might have the same effect. Already in *Social Reform or Revolution* she pointed at accumulation's dependence on the "opening of new markets" and "increased difficulties of finding markets" in the long run (Luxemburg 1899: 65). Her economic analysis in the *Accumulation of Capital* is entirely focussed on the question: "Where is this continually increasing demand to come from, which in Marx's diagram forms the basis of reproduction on an ever rising scale?" (Luxemburg 1913, 104). The answer she gives is that "accumulation can only proceed precisely in so far as the

demand outside I and II (the sectors producing consumer and investment goods, respectively) is rising.” (Luxemburg 1913: 110). She later defines the ‘outside’ as “non-capitalist forms of production” and argues that capitalism needs them “as a market for its surplus value, as a source of supply for its means of production and as a reservoir of labour power for its wage system.” (Luxemburg 1913, 348p.)

Luxemburg derives her argument that accumulation relies on capitalist penetration of non-capitalist forms of production from an abstract discussion of Marx’s schemes of reproduction and further develops it against the historical background of the industrialization of the North and the complementary colonization of the South. Other theoreticians of imperialism, notably Hobson (1902) and Lenin (1916), saw these two developments as subsequent stages. They argued that industrial capitalism would develop domestic markets in the North and that the expansion of these markets would be constrained by an unequal distribution of incomes that puts tight limits on consumer demand from impoverished masses. The result would be the accumulation of surplus capital in the North that would eventually seek investment opportunities overseas.

Contrary to such views, Luxemburg posits that capitalism “is producing for a world market already from the word *go*. The various pioneering branches of capitalist production in England, such as the textile, iron and coal industries, cast about for markets in all countries and continents, long before the process of destroying peasants’ property, the decline of handicraft and of the old domestic industries within the country had come to an end.” (Luxemburg 1913, 275p.) Based on her theoretical and historical analyses she concludes that capitalist expansion into non-capitalist milieus begins with the transformation of natural and peasant economies, largely producing for their own subsistence, into economies that exchange commodities but are not subjected to the imperatives of capitalist competition and accumulation (Luxemburg 1913, chapters 27-29). The means to push economic agents from simple commodity production into capitalist production are credit and political force. Luxemburg’s analyses of this final transformation of non-capitalist forms of production into capitalist ones focuses largely on the colonization of the South (Luxemburg 1913, chapters 30&32) but her findings on the role of money and violence in the South is also true for the original accumulation of capital in England

(Marx 1867, part 8)<sup>1</sup>. Yet, Marx considered the original accumulation of capital only as transitional stage “by which the capitalist mode of production emerges from a feudal society.” Luxemburg, on the other hand, maintains that “capitalism in its full maturity also depends in all respects on non-capitalist strata and social organizations existing side by side with it.” (Luxemburg 1913, 345) The integration of these strata and organizations, though, is an ambiguous process. It is indispensable to keep the accumulation of capital going but at the same time it deepens social divisions and produces political conflict: “The more ruthlessly capital sets about the destruction of non-capitalist strata, at home and in the outside world, the more it lowers the standard of living for the workers as a whole, the greater also is the change in the day-to-day history of capital. It becomes a string of political and social disasters and convulsions, and under these conditions, punctuated by periodical economic catastrophes or crises, accumulation can go on no longer. But even before this natural economic impasse of capital’s own creating is properly reached it becomes a necessity for the international working class to revolt against the rule of capital.” (Luxemburg 1913, 447) Whether by ‘necessity’ she means that the working class revolt will come no matter what or is the only way to realize socialism as an alternative to barbarism, as she argued in the Junius Pamphlet (Luxemburg 1916), is debatable. What should be clear, though, is that Luxemburg didn’t expect socialism rising spontaneously out of the economic breakdown of capitalism, as most of her critics say (Zarembka 2002). Rather, she saw the limits of capital accumulation leading to intensified class conflict that may, or may not, lead to a socialist transformation of capitalism.

The economic theory that Luxemburg develops in the *Accumulation of Capital* is widely known and rejected in Marxist circles. What is completely ignored is that there is more than economics in the book. It also contains hints at class formation and class struggle that, if linked to her explicitly political works, notably *Social Reform and Revolution* (1899) and *Mass Strike, Party and Trade Union* (1906), tell a more political story of capitalist development. A story less determined by economic laws but by class struggles in all its forms, struggles about ideas, wages, hours, and working conditions, but also about political rights and constitutions. A full understanding of capitalist development needs to take the economic imperatives of

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<sup>1</sup> Marx used the term ‘ursprüngliche Akkumulation’, which translates as ‘original’ though most English editions of *Capital* use the pejorative term ‘so-called primitive accumulation’.

competition and accumulation as much on board as the political struggles that occur under prevailing economic conditions. The point of political economy is precisely to find out to which degree political conflicts perpetuate economic conditions and when they can change them.

The second part of the *Accumulation of Capital* offers an analysis of 19<sup>th</sup> century capitalism that connects the issues of capital accumulation and expansion with class formation and struggle. (Luxemburg 1913, chapters 10-24) On the face of it, all she does in these chapters is discussing economic controversies about the question whether capitalist accumulation is hampered by insufficient demand or not. Closer inspection shows that more is going on in this part of *Accumulation of Capital* than reviewing particular aspects of the history of economic thought. In fact, Luxemburg situates these debates in the context of the class struggles of their respective times. She also stresses the political implications of the various theories she scrutinizes. On the whole, her discussion give us a glimpse at how she understood the formation of capitalist and working classes and the development of their respective political strategies.

She begins the second part of *Accumulation of Capital* with a look at the controversies between Sismondi and Malthus on the one hand and Say and Ricardo on the other (Luxemburg 1913, chapters 10-14). Sismondi and Malthus, writing from the 1800s to the 1820s, understand that accumulation is constrained by a lack of efficient demand but can't envision a society beyond capitalism. To fix capitalism's problem of insufficient demand they suggest a return to feudalism or the imagined world of small property holders sharing a market rather than outcompeting each other. This, to use Marx and Engels (1848: 42-52) term from the *Communist Manifesto*, 'reactionary socialism' corresponds with the experiences of popular classes during the original accumulation of capital in England. They saw enclosures that pushed them off their land and the displacement of artisan production by industrial production as an onslaught on the moral economies that had guaranteed them certain social rights under feudalism. Riots and protests, like those of the Luddites, expressed discontent with the subjugation to capital rule but did not point at alternatives to it (Thompson 1963).

The next controversy Luxemburg reviews is that between German economists Rodbertus and von Kirchmann (Luxemburg 1913, chapters 15-17). A series of economic crises between 1837 and 1847 and the 1848 revolution led Rodbertus to the argument that low wages cause crises of underconsumption and that state

intervention could be prevent economic crises and political upheaval. Luxemburg also points at the Chartist movement in England, striking silk weavers in Lyon, and burgeoning socialist circles and debates as first signs of an independent working class movement as the broader context of the debate between Rodbertus and von Kirchman (Luxemburg 1913, 203p.) In this light, Rodbertus calls for state intervention can be understood as the beginning of ruling class strategies aiming at the integration of the working class into the capitalist state and economy as a means to contain revolutionary efforts from below.

The third and final debate Luxemburg looked at in *Accumulation of Capital* was fought between Narodniks and Marxists in Russia around the turn from the 19<sup>th</sup> to the 20<sup>th</sup> century (Luxemburg 1913, chapters 18-24). At that time, Luxemburg notes, Western Europe had gone through the Great Depression from 1873 to 1896, the development of mass workers parties, most of them members of the Second International, and a wave of mass strikes. This was the background against which Russian leftists argued over capitalist development and socialist strategy in a late-industrializing country.

The question Narodniks and Marxists were debating was whether the country would have to go through the process of bourgeois revolution and capitalist industrialization like England and France had done before socialism could even be considered as a political goal, as Marxists like Tugan Baranovski argued, or whether Russia's subordinate position in the world economy, which was dominated by the British Empire at the time, would make fully fledged capitalism impossible and therefore socialism a necessity before industries and industrial working classes had been fully developed. This was the position of the Narodniks around Vorontsov and Nikolayon. Luxemburg argued that the Russian Marxists supported the aspiring Russian bourgeoisie in their effort to establish the country as a great capitalist power alongside Britain, France, and Germany. Against such optimism she argued that the Narodniks were right in pointing at the limited possibilities for the development of domestic capitalism in Russia. But she criticized their failure to see that Russia was already integrated into the capitalist world system in a subordinate position. In that position the Russian bourgeoisie didn't have the economic leeway that is required for the kind of welfare state building from above that Rodbertus had advocated and German chancellor Bismarck had begun to implement. The political implications of this analysis are clear: Unmitigated class antagonism created a revolutionary potential way ahead of anything existing in Western Europe. But

revolution in Russia, because of the countries position in the capitalist world system, would also unsettle economies and societies in the West.

From an economic perspective, the three debates Luxemburg discusses in the *Accumulation of Capital* highlight that insufficient demand constrained capital accumulation at various points in time but also that, every time this happened, new outlets for capital investments could be found. In fact, these three debates correspond more or less with the first three long waves of capital accumulation as identified by Kondratieff (1935), Schumpeter (1939), and Mandel (1980). After the industrialization in England had reached maturity, it was the economic crisis of 1847 that prepared the European revolutions of 1848. Its defeat opened the door for another long expansion including the industrialization of Germany. The long depression from 1873 to 1895 witnessed the emergence of workers' mass organizations and was overcome by the investment opportunities provided by the emergence of new industries, such as chemicals and electrics, but also the industrialization of Russia and the colonial expansion that startled Luxemburg and the other Marxists of her time to much. What is important about this development is that the transitions from one long wave of accumulation were more dependent on class struggles and international conflicts that opened new markets than on exogenous developments of technology (Schmidt 2012c).

The succession of the first three long waves of capitalist accumulation went hand in hand with the making of capitalist and working classes in a hierarchical international state system. It is quite clear from Luxemburg's discussion of controversies about economics that these were of more than purely theoretical interest. The first two were also about defining ruling class strategies, the last one about working class strategy. In another work, her posthumously published 'Introduction to Economics', she explained the role of ideas in coalescing apparently unconnected struggles and experiences into class politics (Luxemburg 1925, 137-141). More precisely, she explains that bourgeois economics, developed in highly abstract tracts but widely disseminated through pamphlets, newspapers within the bourgeois public sphere (Habermas 1962), is an indispensable part of the making of a capitalist class including its own class consciousness. Marxism, she says, would play a similar role for working class formation (Luxemburg 1925, 141-145). From scattered comments on the role of working class organizations throughout her work one might add that she ascribes to them a role similar to that played by the bourgeois public sphere in capitalist class formation. If one further considers her



insistence that the experiences workers' are making in the struggle for economic or political reforms are, even if they don't reach their immediate goals, crucial for the development of class consciousness, Luxemburg's understanding of class formation and struggle appears to be very similar to that of E. P. Thompson (1963). Both stress the conflicts between moral economies besieged by the expansion of capitalism, the role of experiences and their interpretation through the networks of a radical culture as more important to the constitution of working classes as collective agents than the objective relation of workers to the means of production (Schmidt 2014).

The overall picture that emerges from Luxemburg's economic and political analyses is one of the complementary formations of international blocs of capitalist and working classes, respectively, in capitalist world economy reaching the limits of accumulation. The breakthrough of mass consumer markets in the centres is blocked by large numbers of peasants and artisans who are not, or only marginally, integrated into the circuits of capital accumulation. These peasants and artisans keep a lid on real wages and thus workers' purchasing power. Colonization of the South that seeks resources and agricultural product offers only limited opportunities to invest in logistics networks but doesn't allow industrialization. The complete division of the South among colonial powers in the North marked the limits for the accumulation of 19<sup>th</sup> century, indeed. Luxemburg and Lenin understood these limits perfectly. What they couldn't envision was that the international and domestic conflicts they predicted correctly, would eventually lead to a world completely different from the one they had seen. The next part of this article shows that the analytical tools Luxemburg had developed to understand the long 19<sup>th</sup> century could fruitfully be used to come to terms with the short 20<sup>th</sup> century.

### The Keynesian Wave of Accumulation and the Rise of Three Worlds of Statism

Wars, revolutions and counterrevolutions, and the Great Depression from 1914 to 1945 confirmed Luxemburg's dire prognosis that capitalist development would end in "a string of political and social disasters and convulsions (...) punctuated by periodical economic catastrophes or crises." After the collapse of the 2<sup>nd</sup> International at the beginning of World War One, the "international working class" even recognized the "necessity (...) to revolt against the rule of capital." (Luxemburg

1913, 447). However, only in Russia did the revolt to an overthrow of capitalist rule, revolutions in the rest of Europe were defeated between 1918 and 1923 as in 1848. During the Second World War the Red Army, not working class revolutions, paved the way for the replacement of capitalism by communist rule in Eastern Europe. This communism, bureaucratic and dictatorial, had little to nothing in common with Luxemburg's ideas about the self-liberation of the working class. Revolutions from below didn't occur in the West but in the South, notably in China, Cuba and Vietnam. Yet, these revolutions were much more reliant on peasants than on workers, a reality that didn't fit Luxemburg's theoretical and strategic focus on the working class as major agent of change. In many other countries of the South, the anti-colonial revolution left private property, as far as it was developed under colonial rule, more or less in place. But even the developmentalist regimes in these post-colonial countries used the state as a means to foster economic development and social integration. The same was true for the emergent welfare states of the West that also saw unprecedented levels of state intervention used for macroeconomic demand management and the integration of working classes into the this new form of welfare capitalism.

The social integration in the statist worlds of the communist East, the developmentalist South, and the welfarist West and the economic growth underwriting this integration contradicted everything Luxemburg had ever predicted. Keynes had apparently won a complete victory over Luxemburg and other Marxists seeing capitalism in decay and agony. Keynes macroeconomic theories delivered guidelines that technocratic planners used to varying degrees, and mixed with other theoretical approaches, in welfare and developmental states and even communist regimes (Hall 1989, Toye 1984, Dobb 1960). In fact, the Keynesian growth models (Harrod 1939, Domar 1946) identified, just like Marx's (1885) schemes of reproduction in *Capital*, Vol. II, the conditions under which accumulation might continue. However, these conditions only refer to cyclical fluctuations that lead to a deviation between actual and potential growth.

The stabilization of cyclical fluctuations, though, is not the same as explaining the determinants of long-term growth. Luxemburg had made this distinction very clear in the first chapter of the *Accumulation of Capital*: "Periodical cycles and crises are specific phases of reproduction in a capitalist system of economy, but not the whole of this process. In order to demonstrate the pure implications of capitalist reproduction we must rather consider it quite apart from the periodical cycles and

crises.” (Luxemburg 1913, 7) On this question, it might seem, Luxemburg was much closer to neoclassical growth theory (Solow 1956), which was specifically interested in the sources of long-term growth and identified them as productivity and population growth, both exogenous to the relative prices of labour and capital that determine investment decisions but, in the final analysis, adjust to the exogenously given factors productivity and population growth. Yet, neoclassical economists believe that deviations between actual and potential growth, in other words cyclical crises, could be avoided if the forces of supply and demand weren’t tied by government intervention, Luxemburg clearly understood such crises as capitalism’s way of finding “the balance between demand and supply.” (Luxemburg 1913, 18)

Moreover, whereas neoclassical theory recognizes the sources of growth as lying outside the expanded reproduction of capital it does not explain them. One of them, productivity growth, might actually be an endogenous factor as Marx has shown convincingly in *Capital I* where he argues that the class struggle at the point of production along with the competitive pressures under which capitalists operate induce them to constantly seek more productive ways of organizing the labour process. The other factor, population growth, has already been mentioned by Bauer (1913) in his critique of the *Accumulation of Capital*. Luxemburg (1921, 107-135) spends a good part of her *Anti-Critique* on showing that population growth could only determine the rate of accumulation under conditions where each additional worker would, as (neo-)classical theory assumes, find employment. Yet, this assumption is incompatible with Marx notion of an industrial reserve army of labour as an indispensable ingredient of capitalism and, more importantly, entirely out of touch with observable realities. By recognizing the externality of the sources of growth, (neo-)classical economists pointed in the right direction but didn’t explain them. Luxemburg’s theory of the capitalist penetration of non-capitalist forms of production delivers a model to do this for the long 19<sup>th</sup> century and also for the long boom after World War Two.

What is most significant about this boom is that capital accumulation was redirected from the outward expansion that had accompanied the colonization of the South in the 19<sup>th</sup> century to mass consumer markets in the West. The latter are often seen as the result of successful demand management by the state and cooperation between unions and employers. These institutional arrangements, the argument goes, established a wage-led regime of accumulation (Bowles, Boyer 1991). However, a net increase of purchasing power from wage incomes would only have occurred if

real wages had grown faster than productivity. In this case, the positive effect of rising incomes would have been offset by a profit squeeze and falling investment – precisely the constellation that theorists of the wage-led regime see as the reason for the end of the long boom in the 1970s (Glyn et al. 1991). It seems more consistent to consider real wage growth accommodating productivity growth and thus contributing to the cyclical stabilization of effective demand rather than being the driving factor of accumulation. Luxemburg had recognized union’s “labour of Sisyphus” in neutralizing capitalism’s tendency towards economic stagnation temporarily (Luxemburg 1899, 100). The factor that overcame this tendency after the Second World War, though, was the colonization of life-worlds. Social philosophers (Habermas 1987, 332-373) recognized the role this colonization played in overcoming the actual or potential challenges represented by autonomous workers or other movements but had shown little interest in the its economic effects.

These effects are not difficult to detect, though. Commodities produced by artisans and farmers were increasingly replaced by supplies from capitalist firms due to a new wave of the “proletarianisation of the middle layers of (...) society” (Luxemburg 1899, 100). Increasing supplies of mass produced and therefore cheap goods also led to a decline of goods and services made at home compared to purchased commodities. The penetration of the peoples’ lifeworlds was further advanced by household appliances that led, if combined with mass produced inputs from capitalist firms, to labour-saving technological progress in household production. Needless to say that the acquisition of such appliances required additional incomes and thus led more and more women adding wage-work to their household shifts (Mies et al. 1988). Household production was one of the non-capitalist social organisations whose penetration carried prosperity after World War II forward; leisure time activities were another. Culture industries replaced local artists, newspapers, and locally organized leisure-time events. The colonization of both these areas was advocated by a burgeoning marketing industry, which established itself as a major outlet for capital investments (Baran, Sweezy 1966, chapter 5), and fuelled by consumer credit. Even the provisions by the welfare state, which protected working class households to some degree from the insecurities of fluctuating demand for labour and old-age poverty, contributed, by offering monetary assistance, to the replacement of natural household economies by commodity economies (Luxemburg 1913, chapters 27 &28).

This Age of High Mass-Consumption (Rostow 1916, chapter 6) was also propagated by Western imperialism as a goal for the post-colonial South as an alternative to socialist experiments and alignment with the Soviet Union or the People's Republic of China. The support for a capitalist version of developmentalism was chiefly motivated by the Cold War with the communist East but it also created investment opportunities as Southern countries, whose role was to supply cheap resources to the capitalist centres under the reign of 19<sup>th</sup> century imperialism, began to industrialize. Moreover, the Cold War turned arms production, aptly called a "province of accumulation in itself" by Luxemburg (1913, 434), into a major and permanent source for demand in an age of welfare and military Keynesianism (Baran, Sweezy 1966, chapter 7).

While the colonization of Northern life-worlds, the industrialization of the South, and a mushrooming military-industrial complex carried the long boom forward, the class relations that had developed during the 19<sup>th</sup> century and severely challenged in the class struggles and wars during the age of catastrophe changed significantly. Most important change in this respect was the integration of working classes in the administered worlds of the East and West (Marcuse 1964). This integration corroded the social fabric through which working class consciousness had been reproduced since their formation in the 19<sup>th</sup> century (Thompson 1963, Katznelson, Zollberg 1986). Workers' local papers, pubs, sports and cultural clubs either disappeared entirely or were transformed into commercial enterprises in the West or state controlled institutions in the East. Workers parties in the West were transformed into catch-all parties whose electoral base was still working class but whose politics were increasingly determined by professional apparatuses negotiating the tripartite compromises around which welfare capitalism was built. These negotiations also included unions that, like former workers parties, were increasingly divided between the bureaucracies running the unions and a passive membership, which was mobilized to underscore union demands at the bargaining table on occasion. The division between rank-and-file workers and party and union bureaucracies, respectively, was even more pronounced in the East. Though the latter claimed to represent the former they lacked almost complete recognition by the former. This was so because, as in the West, the patronizing attitudes of party and union leaderships offended workers' sense for dignity and thus turned them, as Luxemburg (1899, 1904, 1918) had already argued, against the very organizations that could articulate their interests.

What distinguished the East from the West, though, was that the communist regimes in the East could offer less material gratifications in exchange for the loyalty that welfare capitalism could buy from its working classes. Most of the communist regimes in Eastern Europe lacked the capacities to mass-produce consumer goods since they were late-industrializing countries and had suffered much more from the destructions of the Second World War than Western Europe, let alone North America. Moreover, workers who, for the most parts, didn't recognize the communist regimes as legitimate had little incentive to use their labour power to full capacity. At the same time, full employment, the key accomplishment of these regimes, also meant the threat of losing one's job couldn't be used as a means to enforce a larger work effort.

Class relations in the South were different again. In general, peasants outnumbered industrial working classes and domestic ruling classes either didn't exist at all or only in embryonic forms. Thus there was neither a social basis for compromise between working and capitalist classes as in the West or bureaucratic rule over societies made up almost entirely by workers as in the East. The developmentalist regimes of the South rested on a delicate balance between peasants, workers, middle classes and capitalists tied together by an anti-colonial consensus. Industrialization of the South, however partial, seemed to prepare the ground for the later transition to mass consumer society. But it led to conflicts between balancing peoples' demands for consumer goods and the needs to build industrial capacities in order to fulfil such demands. These were the same conflicts, only on an even larger scale, that state planners were dealing with in the East.

What is important is that the Keynesian wave of accumulation didn't come to an end because Northern lifeworlds had been fully colonized and Southern industrialization reached the threshold to mass-consumption. The penetration of non-capitalist forms of production is a precondition for capital accumulation but this doesn't mean that all such forms will be penetrated before accumulation stops. Following Luxemburg's (1913, 477) thesis that capitalist development "becomes a string of political and social disasters and convulsions (...) punctuated by periodical economic catastrophes or crises (...) before this natural economic" of capitalist penetration is reached, we can identify social forces that the Keynesian wave of accumulation brought forth and that put an end to it.

Developmentalist regimes in the South were increasingly torn in opposite directions. The popular classes, workers and peasants, became increasingly aware

that their demands could only be fulfilled if anti-colonial struggle around which developmentalist regimes had been formed would be succeeded by a struggle against the neo-colonial rule in a new imperialism without colonies (Magdoff 2003). On the other hand, middle and capitalist classes who were too weak to fend off demands from the popular classes and saw their social position terminally challenged by anti-imperialist strategies. Consequently they were willing to abandon the project of national capitalist development and industrialization and willing to build alliances with the ruling classes of the capitalist centres. As long as the strategic conflict between anti-imperialism and import-substituting industrialization and export-oriented production were undecided, investments by Western capitalists became increasingly risky. In the worst case, they were threatened with nationalization. The forward march of the Vietnamese Liberation Front and the election of the Unidad Popular in Chile marked political limits of neo-colonial expansion.

This also meant that the cost of military expenditures, spent to advance neo-colonialism, had to be covered while the expected benefits of expanding markets didn't materialize. This is the reason why the movement against the Vietnam War escalated the domestic conflict between the interests of military-industrial complex in the US, the main promoter of the war in Vietnam, and women's and civil rights movements who were demanding an expansion of the welfare state.

These conflicts confirmed Luxemburg's thesis that the use of "militarism for implementing a foreign and colonial policy to get hold of the means of production and labour power of non-capitalist countries and societies" would eventually turn inward and "become (a) condition(s) for the decline of capitalism." (Luxemburg 1913, 446p.). The threat of such decline was felt particularly by the American ruling class since the US economy was most heavily invested in the arms race with the Soviet Union and counterinsurgency efforts in the South while its World War II adversaries (West-)Germany and Japan had become major export power challenging US dominance on world markets (Schmidt 2010). Apart from the question of capitalist hegemony, new social movements challenged the internal accumulation strategies that contributed most to post-World War II-growth in all capitalist centres (Horn 2007).

Women who entered the workforce as a result of the colonization of private households fought against the double burden of household and wage-work. They also challenged the subordinate position to which they, just as immigrant and ethnic

minority workers, were relegated in the segmented labour markets of welfare capitalism. The demands for equal pay and welfare state expansion that these groups articulated showed very clearly that not everyone within the capitalist centres had reached the age of high-mass consumption, which also means that there was still room for further sales of mass-produced consumer goods. However, these demands were often complemented by claims to limit the control of capitalist firms and state bureaucrats over peoples' lives. Similar claims were even made by many of the male-workers who, despite being at the top of factory pay scales, resented the progressive degradation of work, speed-ups and increasingly tight control over their work. While the working class communities that could have supported workers' struggles in the past were eroded by the integration of working classes into the capitalist system, these workers used the unprecedented levels of employment to voice their concerns in an unexpected wave of labour militancy from the late 1960s until the late 1970s (Crouch, Pizzorno 1978, Brenner et al. 2010).

If capitalists had give in to the demands of old and new social movements in the centres and scaled up investments in the South to move post-colonial societies closer to the age of high mass-consumption they would have expanded their markets. The patterns of accumulation that had carried the long boom forward hadn't reached their end but their continuation spelled the danger of a profit-squeeze. Escalating demands for higher wages, welfare state expansion might have been acceptable if measures to increase labour productivity would has allowed the rate of surplus value to remain constant. Yet, demands for control over the labour process and budgetary decisions of the state, often lumped together as economic democracy, blocked this option. At the same time quests for a New International Economic Order coming from the non-aligned countries of the South challenged the supply of cheap resources (Amin 1979), adding to the already mentioned risk of nationalization of foreign investments. Confronted with such "political and social disasters and convulsions (...) accumulation couldn't go on no longer", indeed (Luxemburg 1913, 447). Capitalist classes abandoned their Keynesian strategies of accumulation and complementary support of welfare and development states and turned to neoliberalism instead.

The Neoliberal Wave of Accumulation and the Decline of Statism



Neoliberalism has sometimes been described as some kind of class struggle from above that aimed at boosting profit rates through redistribution from wages to profits (Harvey 2005). Looking back at three decades of neoliberalism from the 1980s to the 2010s it is quite obvious that this goal has been achieved (Duménil, Levy 2011). However, the fact that rising profit shares since the 1980s led to rising profit rates does not mean that, conversely, the economic crises of the 1970s had been triggered by a profit-squeeze. For the most part, rising wage-shares during the 1970s, the key argument presented by adherents of the profit-squeeze theory (Glyn et al. 1991), could be observed after the 1974/5 world recession when shortfalls in aggregate demand led to a decline in realized profits while workers were still able to more or less defend their real wages (Schmidt 2011). What might look like a profit-squeeze was actually the consequence of falling aggregate demand. Prior to the recession, profits had come under pressure from a different direction. While real wages were rising more and less in tandem with productivity, and thus had no effect on wage and profit shares, respectively, the then prevailing patterns of investments and automation led, in Marxian terms, to a rising organic composition of capital. As already mentioned, workers resisted the intensification of work that would have been necessary, with the compromise between real wage and productivity growth untouched, to increase the rate of surplus value. As such compensating increases did not happen, the rising organic composition of capital led to falling profit rates (Mandel 1978). Marx's Law of the Tendency to Fall in the Rate of Profit (1894, chapters 13-15) may not apply all of the time but it seems to apply sometimes. Capitalists were thus confronted with two problems: Falling profit rates due to a rising composition of capital uncompensated by increases of the rate of surplus value and the threat of a profit squeeze stemming from old and new social movements' demands. Underlying this second problem was the colonization of lifeworlds that had created growing aggregate demand but also given rise to new social movements and escalating labour militancy.

The first step to solve these two problems was responding to demands for greater control of labour processes and society more generally by making quantitative concessions, i.e. paying higher wages and expanding public expenditures. Higher wages triggered a wage-price spiral whereas government budgets were confronted with the choice between higher deficits or rising taxes. Neither striking workers nor new social movement activists were prepared to deal with the macroeconomics of inflationary struggles over income struggles or fiscal crises of the state. Neoliberals

were: Inflation and public deficits were precisely the conditions they needed for their project of unmaking welfare and developmental states. People from different class backgrounds felt their incomes were eroding due to inflation and future tax increases that were caused by the demands of special interest groups from unions to women's and environmental groups. Beginning in the 1970s, neoliberalism, which started as an intellectual project of economists who saw social democracy and communism as alternate roads to serfdom turned into a political project with popular appeal (Harvey 2005, chapter 1; Schmidt 2011).

The Volcker Shock, a turn to tight monetary policies and the sharp increase in interest rates it produced, became the opening salvo in the war against the popular classes and the inroads they had made into welfare and developmental states during the Keynesian wave of accumulation. Its immediate effect was the global recession from 1980 to 1982 and a drastic increase in unemployment that signalled the end of 1970s labour militancy. The 1974/5 recession had already marked a turning point from struggles in which workers were on the offensive and articulated their demands without fear of job-loss to much more defensive struggles, many of them aiming at the protection of jobs. Whereas this recession changed the character of workers' struggles, the politically triggered recession of the early 1980s marked its end (Cowie 2010, Glyn 2006, 3-8, Schmidt 2011). Although Volcker's monetarist turn aimed at combating domestic inflation more than anything else, it soon turned into a convenient opportunity for the US ruling class to reclaim hegemony by leading the international forward march of neoliberalism (Panitch, Gindin 2012, chapter 7) vis-à-vis the real or perceived challenges represented by the economic miracle countries Germany and Japan but also against Southern demands for a New International Economic Order.

The swift ebbing away of labour militancy after unemployment doubled compared to the post-1974/5 crises and even tripled or quadrupled compared to the early 1970s indicated that this militancy was more reliant on tight labour markets than autonomous capacities of the working classes to mobilize even during hard economic times. Organizing workers who struggling during periods of mass unemployment has always been difficult but repeated experiences with such periods also taught workers to organize, one way or another, against the odds. Yet, the long boom with unprecedented high levels of employment and the integration of workers' organizations into the apparatuses of welfare capitalism had destroyed these experiences that Luxemburg considered sine qua non of effective workers'

struggles. The turn from Keynes to Hayek, that the Volcker Shock signalled, also confirmed her general argument that workers may win social reforms during economic good times but will face attacks on these reforms once the economy turns to crisis, as under capitalist relations of production, it must. Kalecki, a disciple of Luxemburg, refined this argument and pointed to the limits of Keynesian employment policies in the midst of World War II before welfare capitalism had even started.

Letting unemployment do its work of disciplining workers (Shapiro, Stiglitz 1984) is a double-edged sword, though. While it proved to be very effective in taming workers it also represented foregone surplus value as each unemployed worker, if employed, would have created such value. Therefore capitalists were seeking accumulation strategies that could tap into this potential source of surplus value without reviving the spectres of militant workers or other social movements that haunted them all through the 'long 1970s' (Brenner et al. 2010, Horn 2007). One such strategy was the bypassing of unions through relocations. Investments of productive capital in foreign countries weren't new. They occurred as part of the mutual interpenetration of the capitalist centres during the Keynesian wave of accumulation and, on a much smaller scale, were also made in the postcolonial South (Vernon 1966, Fröbel 1980). However, access to countries in the South was limited as developmentalist regimes were also pursuing domestic investments and sought control over foreign direct investments. An unintended but convenient side effect of the Volcker Shock was that it provided the leverage to overcome these limits. During the 1970s, when Western capitalists slowed domestic investments down and oil-exporting countries needed to recycle dramatically increasing revenues, non-oil exporting countries of the South had easy access to cheap credit that they could use to buy support for increasingly fragile developmentalist regimes. Interest rate hikes triggered by monetary tightening in the US pushed these regimes into a debt crisis that opened the door for the structural adjustment programs of the IMF and the World Bank. These programs, supported by rejuvenated comprador bourgeoisies in the South, moved economic development from import-substitution to export-oriented industrialization. What is important to note is that industrialization of the South didn't stop after the debt crisis of the early 1980s but changed its character. Rather than trying to develop national industries that would allow post-colonial countries economic independence from exploitation and control by Western capitalist, the latter regained control over many Southern countries and

used it to roll back the popular classes in centres and peripheries alike. Part of this effort was the destruction of still significant sectors of subsistence production in the South that were subjected to the conversion of land to cash-crop-production. These enclosures also produced a surplus population that was forced to seek work in the burgeoning sweatshop industries whose cheap products could easily outcompete products made by unionized and much better paid workers in the West.

What Luxemburg (1913, 419-424) wrote about the role of international loans in forcing Turkey under the control of Britain's and Germany's competing capitalisms in the second half of the 19<sup>th</sup> century and the effects this had on peasant economies in Turkey reads in large parts like an anticipation of IMF and World Bank policies around one-hundred years later. Just in the latter case, Western capitalists had muted their competition amongst each other and closed ranks behind US leadership in their concerted effort to break the power that popular classes had been able to institutionalize in welfare and developmental states during the Keynesian wave of accumulation. Another aspect that is important for this effort, but wasn't addressed by Luxemburg or other Marxists of her generation, were the changes in the organization of the labour process that were implemented alongside the scaled-up relocations of production since the 1980s (Silver 2003).

As noted above, the degradation of work that had accompanied capitalist automation since the rise of giant corporations had produced increasing discontent, which, under conditions of tight labour markets, triggered an outbreak of labour militancy in the 1970s. Industrial restructuring since the 1980s promised to loosen capitalists' control over the labour process and allow workers more autonomy instead. The rhetoric that accompanied these new management techniques skilfully drew on the discontent that striking workers and New Left theorists had articulated and turned it into a selling point for the new gospel of team-work and flat hierarchies in smaller organisational units (Boltanski, Chiapello 2007). What the new management techniques really did, though, was to increase competition between different groups of workers within and between companies. This competition was further advanced by the introduction of robots in manufacturing and the progressive replacement of clerical work by computers. The latter also enabled management control over production and distribution processes beyond the wildest dreams of Frederick Taylor and his followers. As a result, workers felt increasingly under pressure to meet production and profit quotas to keep their jobs while the vertically integrated companies that had been the backbone of industrial

organizing from the 1930s onwards were taken apart (Antunes 2013, chapters 2-4). Until today, unions haven't found a way to effectively organize workers in the regional and global production networks that were the result of relocations and restructuring from the 1980s until today. Working classes that had been integrated into welfare capitalism were unmade under the reign of neoliberalism. On this score, the class struggle from above that Harvey (2005) and others describe so eloquently was a resounding success. However, overcoming the challenges represented by a variety of social movements and the expansion of welfare and developmental states doesn't mean that capital accumulation would pick up after the crises of the 1970s and early 1980s automatically. After the accumulation strategies that had driven the Keynesian wave of accumulation were abandoned in order to overcome these challenges new markets had to be found to avoid economic stagnation and escalating social and political conflicts. In another of his books, Harvey (2003, chapter 4) dealt with this issue. Drawing on Marx's theory of the original accumulation of capital and Luxemburg's theory of the capitalist penetration of non-capitalist milieus he argues that accumulation by dispossession allowed capitalist to overcome the crisis of overaccumulation it had entered in the 1970s. He presents new wave of enclosures and the privatization of publicly owned firms and facilities in all parts of the world, including the East after the collapse of the Soviet Union, as the drivers of this form of accumulation. Like Luxemburg he points at military force and credit to advance it. The problem with this analysis is that it presents accumulation by dispossession more as a stage of capitalist development after a period of "expanded reproduction", the long boom following World War II, had led to "chronic problems of overaccumulation" (Harvey 2003, 153, 156). What this neglects that the long boom was also reliant of various forms of accumulation of dispossession and also that the neoliberal wave of accumulation was certainly dependent on further dispossessions but that it also enabled considerable advances in expanded reproduction. Economic growth since the 1980s is slower than it was during years of prosperity after the Second World War but is far from stagnation; in some countries of the South, notably China, it is actually remarkably high (Maddison 2001). Expanded reproduction, i.e. the accumulation of capital within the capitalist economy captured analytically by Marx' schemes of reproduction, and accumulation by dispossession are not alternatives, with one driving capitalist development at one point and the other driving it at another, but complementary. The penetration of non-capitalist milieus is a precondition for expanded reproduction. When the former stops, the latter also stops and capitalism

finds itself in economic crisis. If class struggles and international conflicts that can already intensify when accumulation slows down or may even be triggered by it overcome barriers that previously barred non-capitalist milieus from capitalist penetration another long wave of accumulation might ensue.

Social movements in the South and in the West and capitalists' response to them did overcome the barriers to capitalist penetration that had been erected by welfare and developmental states. Moreover, the scaling up of the arms race after the age of détente increased the outside pressures on Soviet communism, already strained by internal weaknesses, to breaking point. The collapse of the Soviet Union, and the subsequent opening of China for foreign investments and the internal accumulation of capital, also allowed for the territorial expansion of capitalism. The unmaking of welfare and developmental states and the collapse of Soviet communism recreated a global capitalism that in many ways resembled the one Luxemburg had seen in her lifetime. The major difference between then and now is that capitalist development over the long 19<sup>th</sup> century had seen the making of working classes in Europe and North America. These classes were seen as bearers of a socialist future or, depending on one's standpoint, threat to the natural order of capitalist rule. In ways unexpected by neither side these classes made significant advancements in the statist worlds after the Second World War. Ironically, these advancements went hand in hand with the longest and strongest expansion in all of capitalist history. When it reached its limits, the unmaking of statism and working classes began. In the sense of working classes as collective agents of change, classes for themselves, there is much less of them than a hundred years ago. As classes in themselves, though, there are many more. The globalization of capitalist forms of production, first embedded in welfare and developmental states and unleashed during the neoliberal wave of accumulation carried capitalism in many corners of the world whose economic life, even if formally subjected to colonial rule, had little to nothing to do with capitalist production. With this mode of production came the discontent, articulated in very diffuse but nonetheless visible forms, of the workers who, in very different ways, are subjected to the imperatives of capital accumulation. This discontent might signal the making of new working classes for themselves in the future.

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