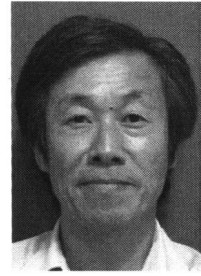


# THE ONGOING WORLD CRISIS AS ALREADY EXPLAINED BY CAPITAL IN 1868 AND *IMPERIALISM* IN 1917

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**Abstract:** In Marxian economics there are two ways of explaining the current world economic crisis: (1) the idea that the crisis was caused by the “failure of neo-liberalism”; (2) the view that explains this crisis as a matter of business cycle. However, view (2) does not explain why the crisis has become an incident of historical proportions, a so-called “once-in-a-century” event. On the other hand, view (1) cannot explain the crisis as the failure of capitalism itself. Differently from the above two explanations, this article explains that the current crisis is the result of the advanced countries (particularly the US), which have come to be faced with zero growth, tending to avoid difficult changes and instead opting for easy solutions for better utilizing nonproductive sectors.

**Key words:** decay of capitalism; crisis; Marxist economics; zero growth; structural adjustment

## **Standard Explanations that Miss the Point**

Many “Marxian economists” have put forward views on the current world economic crisis, and these are of two types: (1) the idea that the crisis was caused by the “failure of neoliberalism” (i.e. was due to the nature of a particular type of capitalism) and (2) the view that explains this crisis as a matter of business cycle resulting from overproduction.

However, view (2) does not explain why the crisis has become an incident of historical proportions, a so-called “once-in-a-century” event. With regard to view (2), I think that the crisis represents a once-in-a-century (though a crisis on this

scale may actually occur every few decades) global structural adjustment, much like the structural adjustments that saw the depression of the late 19th century lead to a transition of power from Britain alone to several great powers, and the depression following the First World War that led to the establishment of US hegemony. It goes without saying that this current adjustment represents a shift in power from a US-dominated structure to a structure with Asia, and China in particular, at the helm, and a symbol of this transition is the instability in the value of the dollar. This instability had already begun with the Nixon Shock in 1971, and defeat in the Vietnam War and the 1985 Plaza Accord can also be seen as being part of a sequence of events stemming from that. Going further, the 1997 Asian crisis can actually be seen as a result of global exchange-rate instability.<sup>1</sup>

In addition, unless view (1) encompasses an explanation of how neoliberalism itself is an inevitable consequence of the decay of capitalism itself, it carries with it the weakness of being unable to explain the current situation as the failure of capitalism itself. It can also be said that the positions of various schools of modern (i.e. mainstream, non-Marxian) economics, which attempt to explain the current crisis through a partial revision of neoclassical theory, are also in line with this view. In response to this view, I think that the current crisis should be understood as the result of the economies of advanced countries (particularly the US), which have come to be faced with zero growth, tending to avoid difficult changes and instead opting for easy solutions for better utilizing nonproductive sectors. Even with the general manufacturing sector declining, the overwhelming strength of demand from the military sector has tended to lead to war being used as a solution to economic difficulties, while the relatively strong IT sector proved capable of creating a bubble. This extended to the housing sector in the form of subprime loans. In other words, the US has always created war economies or bubble economies (i.e. money capitalism). These must be understood not merely as policy mistakes, but as the result of the decay of capitalism, which is an inevitable consequence of having a zero-growth economy.

Overall, therefore, the theoretical framework for dealing with these issues should be theories of unequal development in global capitalism and the decay of capitalism, i.e. Lenin's theory of "imperialism as the highest stage of capitalism." This is why, in my work on quantifying Marxian economics, the first task I tackled was building a quantitative economic model of Lenin's theory of imperialism.<sup>2</sup> This has also been formularized as a theoretical model for criticizing Krugman's theory.<sup>3</sup>

### **Why is Zero-Growth Inevitable?**

However, while the aforementioned research, which I mainly conducted in the 1990s, could explain the relative decline of advanced capitalist countries, it did

not clearly express the transition to zero growth at an absolute level. Since then, therefore, I have been working on building a more general model of capitalism in order to address this problem. It is a model of long-term stagnation called “Marxian Optimal Growth Theory.” An outline of the model can be shown using Figure 1. Here, the  $K/L$  axis shows the per-capita capital stock, while the  $t$  axis expresses time.

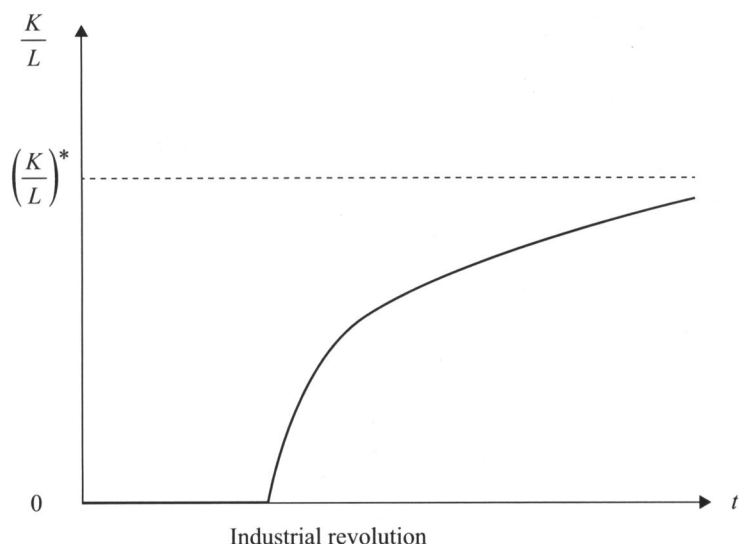


Figure 1

The industrial revolution therefore forced countries to start accumulating capital, yet there is an upper limit to the final target that should be reached. Once this target is achieved, they must stop the accumulation of capital. Following general economic understanding, and assuming that output per person is dependent on the per-capita capital stock, then the end of capital accumulation will entail the end of increases in output, i.e. will result in zero growth. This upper limit on the accumulation of capital can be clearly determined using a mathematical formula.

However, because understanding this upper limit on capital accumulation is extremely important, I will explain it here in the simplest way possible. Let us consider, for example, four types of production method that, with different quantities of machines and labor, each produce 1,000 tons of the same final product:

*Method 1:* 0 machines and 1,000 hours of labor produce 1,000 tons of final products

*Method 2:* 5 machines and 200 hours of labor produce 1,000 tons of final products

*Method 3:* 10 machines and 50 hours of labor produce 1,000 tons of final products

*Method 4:* 20 machines and 20 hours of labor produce 1,000 tons of final products

Let us also assume that the production of 1 machine requires 10 hours of labor. This means that the total amount of labor ultimately needed to produce the 1,000 tons of final products using methods 1–4 is as follows:

*Method 1:* 0 machines × 10 hours + 1,000 hours = 1,000 hours

*Method 2:* 5 machines × 10 hours + 200 hours = 250 hours

*Method 3:* 10 machines × 10 hours + 50 hours = 150 hours

*Method 4:* 20 machines × 10 hours + 20 hours = 220 hours

It goes without saying that method 3 is the most rational of the four production methods, and that once society accumulates this level of capital stock, any further accumulation of capital is, in aggregate terms, pointless. Stated more accurately, any further accumulation will reduce the total amount of final products that society can produce. To give a real-world example, public investment in Japan has already gone as far as it can go, such that any further investment is not only of no benefit, but is actually wasteful. The Japanese economy's net investment, defined as total investment less depreciation, is also almost zero. The accumulation of capital, which is the task of capitalism, has already been achieved, which means that we have now entered the age of the “no accumulation = zero growth” economy. At any rate, it is important to understand two things. The first is that the accumulation of capital under capitalism has an upper limit, which means that at some point increases in production that are driven by capital accumulation will cease. The second is that the economic stagnation in advanced capitalist countries is a manifestation, i.e. an inevitable consequence, of this.

### **Need to Adjust the Social Structure to Zero-Growth Economies**

So what do these advanced capitalist economies afflicted with zero growth need to accomplish? I have already dealt with this issue in detail in Onishi (2007), and some of the points I made there, with some additions, are as follows.

The first is that these countries must reduce the relative weight of the construction sector in their national economies. This is because during Japan's high-growth period, it was natural that the construction industry was twice as large as that of the US as a proportion of total economic activity, but now such a figure is excessive. The construction sector has resisted all attempts at downsizing, while the Liberal Democratic Party has tried desperately to protect road-related public corporations. These efforts are no different from endeavoring to maintain an excessive capital stock, and such “construction-oriented government” must be abandoned.

Of course, structural changes in the national economy (in terms of the relative weight of different industries) must also be effected at the level of the individual firm.

Firms should aim to move from a management system that prioritizes investment in the allocation of resources to one that prioritizes empowerment of workers through higher wages and shorter working hours. And what I want to focus on in particular with respect to this “worker-prioritized management system” is the securing of employment.

What I mean by this is that while China currently needs to maintain 8 percent growth to ensure full employment, this is a natural situation for a country in such circumstances. Although the recent economic crisis has probably reduced China’s potential growth rate by around two percentage points, an economy that has a potential growth rate close to 10 percent will not be able to achieve full employment even with 5 percent growth. Put another way, if 5 percent is sufficient for full employment and efforts are made to grow the economy at a rate of over 5 percent, the labor force will hit a bottleneck that impedes growth. This means that while growing economies such as the China of today must make big improvements in labor productivity, such that they achieve, in the terminology of modern economics, “labor-augmenting technical progress,” Japan’s economy must not do the same. Zero growth should not be understood as being the result of an economic depression that causes high unemployment. Rather, a society must be established in which everybody can retain their jobs even with zero growth. For example, working hours could be drastically reduced, giving workers more time to improve their skills and allowing work-sharing programs to be introduced.<sup>4</sup>

Of course, the capitalist class will probably resist this, as will the construction sector. Other action also needs to be taken, and there will likely be resistance here because this action will probably conflict with vested interests. In the sense that all this resistance represents an orientation towards the continuation of the accumulation of capital, capital accumulation equals capitalism. In other words, defeating this orientation towards continued capital accumulation implies a fight against capitalism. In a certain historical stage when capital accumulation was an important task, capitalism was necessary, but in the next stage when capital accumulation is unnecessary, the challenge should be to abandon capitalism. In other words, in the advanced economies of today, the abandonment of capitalism has become an era-defining task.

Therefore, that is the question being asked of the US economy in the current crisis. Despite zero growth, the US is not trying to establish a new social system of the type described here. Still now, it obviously favors an economy that is dependent on military spending and economic bubbles. In my opinion, it is very important. It still favors continuing capital accumulation, i.e. conserving the capitalist system. What it has to do now is abandon this system, i.e. capitalism.

## Modern Economics: Making Light of Manufacturing

As I have stated above, what have come under scrutiny in the current economic crisis are problems relating to *Imperialism, the Highest Stage of Capitalism*, and these problems lead to questions about the desirability of continuing capitalism at all. However, when we turn our attention to the US economy's dependence on finance, we must also refer to the problem of modern economics, which cannot identify any differences between financial profit, commercial profit, and industrial profit. In Marxian economics, we have concepts of "productive labor." Here, financial profit and commercial profit are just by-products of the industrial surplus value. Therefore, only bloatedness in the financial sector was intrinsically dangerous. Modern economics, however, which does not possess such theories, obviously does not give much acknowledgment to this danger, and this allowed a dependence on finance and bubble economies to proliferate. The current crisis represents an opportunity that must be used to explore this problem thoroughly. This is something that always strikes me whenever I see a television program or magazine article dealing with this problem.

To be honest, acknowledgment of this problem from our side, i.e. the Marxian economics side, has actually also been fairly weak. For example, with the global shift towards service economies, some Marxian economists have also discarded the concept of "productive labor," and then they failed to understand this fundamental problem. This is that with respect to productive labor and nonproductive labor as the terms are used in *Capital*, productive labor is absolutely essential because neither commerce nor finance existed in ancient time, but based on this, nonproductive labor has come to contribute, in its own way, to the expansion of the society's total output. Nowadays, for example, commercial labor, which constitutes a part of nonproductive labor, contributes to the expansion of the society's output in ways such as those described below.

Let us imagine a situation in which all five goods required by society are produced by the six self-sufficient households for their own consumption. This situation can be shown visually using Figure 2.

However, if these five goods were each produced exclusively by five of the households, benefits from division of labor, i.e. specialization, might increase the total amounts of the five goods produced by the society. Although in simple terms this would benefit society, the problem is that extra work, i.e. labor, is required to appropriately allocate the five products to each of the six households. Let us assume that the sixth household performs this work. Representing this new situation visually gives us Figure 3, where it is assumed that benefits in terms of increased output from the division of labor, i.e. specialization, are over 6/5.

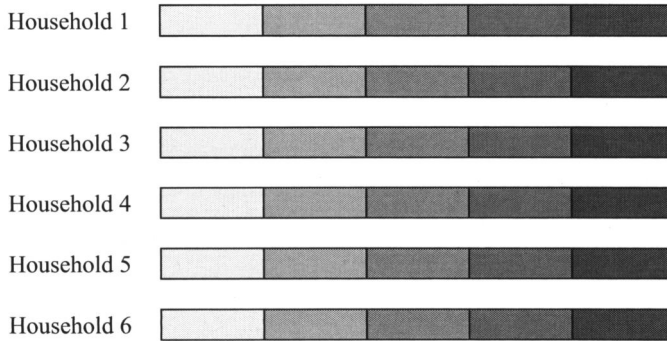


Figure 2 Production by six self-sufficient households



Figure 3 Division of labor among five specialized producers and one merchant

What I want to show with these diagrams is that if the households are self-sufficient, there is no need for commercial labor, yet if there is a division of labor within the society, as is the situation in Figure 3, commercial labor is required. Put another way, thanks to this labor, each household can devote itself to specialized production with peace of mind. This is only possible because of commercial labor, so this commercial labor clearly has significance for the society. The problem, however, is that this labor is not producing anything new, or taking things further, that this commercial labor on its own is meaningless. Only with the existence of productive labor does nonproductive labor become significant.<sup>5</sup>

**The Role and Limitations of the Financial Sector**

Of course, the same can also be said regarding the financial sector. This is because in the sense that it appropriately allocates social surplus, the financial sector

contributes to improvements in social efficiency, though this obviously only holds when productive sectors also exist, so the existence of such sectors is a prerequisite. The role of the financial sector can actually be illustrated using the same example of the role of commerce.

This is because finance is the process of financing (i.e. “lending funds”), or more broadly, allocating social productive resources, and while in the above example all the households initially needed to possess the means of production of the five different products, during the process of shifting to a situation in which five households produced one type of product each, these means of production must have been transferred, i.e. productive resources must have been reallocated. These were not merely physical transfers, either. If the six original producing households borrowed and lent from each other, for example, it would constitute a type of financing at the material level. Moreover, if all six households had originally received bank financing to purchase and operate their means of production, the process of shifting from the original allocation of the means of production to the new allocation, i.e. the work of changing the recipient of the financing, would have had to have been performed by the bank. This would require labor, so even with the above example, a financial sector, in the broad sense, must perform some kind of role. This means that in the above example household 6 must be not only a trader but also a financier.

The important thing here, therefore, is that while the financial sector and commercial sector both have social significance in that they support production by the productive sector, they are not productive in themselves. Some commentators have blamed the current crisis in the US on making light of manufacturing, yet the moment the debate turns to that it ceases to be a debate about economics. However, Marxian economics has constructed a theory of this itself. It is the core theory in the theories of surplus value. In my opinion, Marxian economists themselves should not analyze the current financial crisis by pursuing surface-level cause/effect relationships. Rather, it should be dealt with in terms of its relationship with this fundamental theoretical framework.

## Notes

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1. See, for example, Chapter 7 of Onishi (2003) for a discussion of this last point.
2. For example, see Onishi (1994, 1998).
3. See Onishi (2010) and Onishi (1997), the latter of which was also published later as Chapter 1 of Onishi (1998).
4. With regard to this point, perhaps we should pay a little more attention to the situation in European countries. From the point of view of people like us in East Asian industrialized countries, European countries often appear to be “dead societies.” However, this is probably because in many respects they have succeeded in creating societies that are adapted to zero growth.



5. Yagi (2006) provides an easy-to-understand explanation of this type of commercial labor. Unlike in this article, however, Yagi does not explain things in terms of commerce emerging out of self-sufficiency. Instead, he describes how it relates to the role of the effectiveness of additional investment by the commercial sector in the formation of average profit.

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