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Marx, Globalization, and the Falling Rate of Profit: A Critical Essay.

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### Abstract

This paper argues that Marx's views on globalization and its supposed inevitability underwent a substantial evolution and revision after the publication of the *Communist Manifesto*. His writings relating to India, and particularly China and Russia, show that he was no longer certain that "the country that is more developed industrially only shows, to the less developed, the image of its own future" (Vol. I, p. 13). In the case of China, a prime example of the Asiatic mode of production, Marx even doubted whether globalization (capitalism) would ever be able to accomplish its historical mission of developing the forces of production and creating the material conditions for a higher mode of production, viz., Communism. While in the Russian case, he seriously entertained the notion that it could bypass the hardships and vicissitudes of capitalism and forge its own unique path to socialism. If accepted, this interpretation represents a serious challenge to the universality and validity of Marx's materialist conception of history. The paper also addresses the role of the law of the tendency of the falling rate of profit in the geographic expansion of competitive capitalism. It contends that Marx did not believe there was an iron-clad connection between the falling rate of profit and globalization; in addition, it argues that Marx believed that the capitalists' insatiable search for colonial markets was driven by their desire to overcome recurrent (and growing) realization problems in the home market arising from deficient aggregate demand on the part of both workers and capitalists.

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## I. Introduction.

In recent years, some Marxian scholars have argued that the rapid integration of goods and financial markets (globalization) the world economy has experienced since the demise of the Soviet Union and its satellites is vindication of Marx and Engels' prescient analysis in the *Communist Manifesto*, *Capital*, and in their works addressing colonial matters, written more than a hundred fifty years ago (see Dupuy, 1998; Foster, 2000; Jellison and Gottheil, 2009; and Sutcliffe, 2002). Moreover, the main underlying economic reason given for the geographical expansion of capitalism (away from Western Europe and England in particular) into a global system has been attributed, primarily, to Marx's much maligned "law of the tendency of the rate of profit to fall."

This paper does not necessarily take issue with the contention that the [early] Marx and Engels's believed that the ultimate victory of socialism was predicated on the universalization of capitalism, but contends that the more mature [and late] Marx had significantly revised his views on this highly important matter even to the point of arguing that it was no longer inevitable. Thus, any interpretation which ignores this development in Marx's thinking is both incomplete and misleading when applied to the historical reality of non-European societies.

It is argued below that Marx's views on the process of globalization (imperialism in former times) in the non-European world, particularly the so-called Asiatic mode of production, exhibited, over time, a marked evolution and nuance, some would even say inconsistency, with his materialist conception of history. In support of this view, Marx's trenchant editorial dispatches for the *New York Tribune* during the 1850s (as well as his

writings in *Capital* and the *Grundrisse*) on the impact of imperialism in the colonies (India and China), and his observations, a few years before his death, relating to whether Tsarist Russia could establish a socialist society while bypassing, altogether, internal capitalist development are presented as textual evidence.

Second, the paper maintains that, although Marx assigned a primary role to the law of the declining rate of profit in explaining crises and the geographic expansion of competitive capitalism, he emphasized its long-run nature and the fact it would be subject to a number of offsetting forces that could slow down its fall or even arrest it completely. He also proposed other plausible economic reasons for the expansion of capitalism, viz., the capitalists' insatiable search for colonial markets in order to overcome recurrent [and growing] realization problems in the home market arising from deficient aggregate demand. In other words, there is no "iron necessity" in Marx's mind between the advent of globalization and the law of the tendency of the falling rate of profit.

The paper is organized as follows. The first section discusses Marx's writings on the impact of globalization (imperialism) in the colonies, particularly India and China, as well as Tsarist Russia, and while they highlight continuity with other earlier and later works, including the *Communist Manifesto* [CM], *Capital*, and the *Grundrisse*, they also reveal a significant evolution in his views, even to the point of reversal on major tenets. Next, Marx's writings, including the CM and *Capital*, suggest that under-consumptionist tendencies in Western Europe and England, although perhaps not as important as the tendency of the falling rate of profit, are integral to explaining the geographical expansion of capitalism into a global system.

## II. Marx, Globalization, and the so-called Asiatic Mode of Production.

There is no question that Marx and Engels viewed the annexation of India by the British Raj or the British opium trade in China as necessary developments in world history in terms of developing the productive forces of society, but not as a cause for celebration given the inherent inhumanity of the imperialist mission and the self-serving cruelty and hypocritical behavior of the “civilization mongers” as Marx often referred to the British colonizers. In fact, nowhere is this sentiment more evident than in the very article where Marx analyzes the “progressive impact” of British colonial rule in India. Towards the end of the article entitled, “The Future Results of British Rule in India,” where he had earlier observed that “The railway system will therefore become, in India, truly the forerunner of modern industry,” he also informs the reader that he “cannot part with the subject of India” without making some concluding remarks which, given their telling nature, are worth quoting in full,

The profound hypocrisy and inherent barbarism of bourgeois civilization lies unveiled before our eyes, turning from its home, where it assumes respectable forms, to the colonies, where it goes naked. They are the defenders of property, but did any revolutionary party ever originate agrarian revolutions like those in Bengal, in Madras, and in Bombay? Did they not, in India, to borrow an expression of that great robber, Lord Clive himself, resort to atrocious extortion, when simple corruption could not keep pace with their rapacity? While they prated in Europe about the inviolable sanctity of the national debt, did they not confiscate in India the dividends of the rajahs, who had invested their private savings in the Company’s own funds? While they combated the French revolution under the pretext of defending “our holy religion,” did they not forbid, at the same time, Christianity to be propagated in India, and did they not, in order to make money out of the pilgrims streaming to the temples of Orissa and Bengal, take up the trade in the murder and prostitution perpetrated in the temple of Juggernaut? These are the men of ‘Property, Order, Family, and Religion (2007 [August 8, 1853], p. 224).

Marx viewed the wholesale and forcible destruction of “primitive” societies, such as those of India and China, as necessary and progressive because he believed that the Asian mode of production did not have “a history” in the sense that Western European civilization did.<sup>1</sup> He believed that Asian societies lacked internal dialectal forces, viz., classes and class conflict, capable of generating progressive historical change (development of the productive forces and the creation of new property relations of production) in the manner that feudalism’s decay created propitious economic conditions for the growth of the bourgeois mode of production in Western Europe. For example, insofar as India is concerned, he writes that,

India then could not escape the fate of being conquered, and the whole of her past history, if it be anything, is the history of the successive conquests she has undergone. Indian society has no history at all, at least no known history. What we call its history is but the history of the successive invaders who founded their empires on the passive basis of that unresisting and unchanging society. The question, therefore, is not whether the English had the right to conquer India, but whether we are to prefer India conquered by the Turk, by the Persian, by the Russian, to India conquered by the Briton (1853, pp. 219-20).

Marx held a similar (stereotypical) view with respect to China in an article published in the German newspaper *Die Presse* (July 7, 1862) entitled, “Chinese Affairs,” where he discusses the nature of the Taiping Rebellion (1850-64) against Manchu colonial rule.

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<sup>1</sup> Paul Baran (1957) would strongly disagree with Marx’s generalization because his own extensive studies of the Indian economy [and Japan] led him to conclude that India had attained significant industrial development prior to its conquest by the British Raj, and that after its forcible colonization, the country’s further economic development was undermined and distorted as a direct result of the massive extraction and transfer of her wealth (which Baran estimates at no less than 10 percent of India’s gross national income) to the imperial power, thereby depriving her of much needed resources for investment and future growth (see pp. 144-150). Baran also contrasts the tragic case of India with that of Japan which escaped colonization under the Meiji Restoration (1868-1912) and became a major industrial and military power (ibid., pp. 151-163); Tsarist Russia would find this out the hard way when its expansionist policy in the Far East came to a swift and humiliating end at the hands of the Japanese during the Russo-Japanese War (1904-05). For further details, see Baran, op. cit., and Brewer (1990, Chp. 7).

Some time before the tables began to dance, China--this living fossil—started revolutionizing. By itself there was nothing extraordinary in this phenomenon since, the Oriental empires always show an unchanging social infrastructure coupled with unceasing change in the persons and tribes who manage to ascribe to themselves the political superstructure.

Marx viewed as both necessary and inevitable the conquering and subjugation of India [and China] because “Capitalism and the Globalization” process ...will create out of an economically diverse set of nations a ‘unified whole,’ more humane than any of its parts had ever been” (see Jellison and Gottheil, p. 36). This echoes Marx’s own analysis of how this process would unfold within a closed capitalist economy, viz., capitalism “...ruthlessly forces the human race to produce for production’s sake; he thus forces the development of the productive powers of society, and creates the material conditions, which alone can form the real basis of a higher form of society, a society in which the full and free development of every individual forms the ruling principle” (Capital I, p. 592). Although globalization is necessary for the ultimate attainment of human freedom, Marx’s writings on Asia (and Russia) suggest that, far from being inevitable, it would be a highly uneven and protracted process that, under certain conditions, particularly in the case of China, might never take place owing to the nature and resilience of the Asiatic mode of production.

In Marx’s mind, the Asiatic mode of production stood uneasily [and inconsistently] apart, both geographically and conceptually, from the other Western-based modes of production that formed integral parts of his materialist conception of history, viz., “the ancient, the feudal, and the modern bourgeois methods [modes] of production” he so aptly describes in the Preface to a Contribution to the Critique of Political Economy (1859) [see Avineri, 1969]. The Asiatic mode, as opposed to the feudal or bourgeois, did

not possess an endogenous mechanism of change via class formation and conflict that would destroy the existing (property) relations of production of one mode of production, say feudalism, and replace it with new and better suited ones to the advancing technology, thus paving the way for the further development of society's forces of production; in other words, it was incapable of generating capitalism from within.<sup>2</sup>

Based on Marx's extensive study of India's [and China's] political and military history as well as its land tenure system, he concluded that Asiatic society's "lack of history" and stubborn resistance to change via the penetration of trade alone were the result of three important factors:<sup>3</sup> First, the vast bottom of these societies consisted of a multitude of small and isolated villages that were virtually self-sufficient owing to the union of primitive agriculture and handicraft industries within each village; second, these communities [more so in the case of India than China] were characterized by the absence of private ownership in land, although Marx noted that "there is both private and common possession and use of land" (*Capital*, Vol. I, pp. 791-2); and third, there existed no autonomous feudal class [in the Western European sense] nor, for that matter, any intermediate classes of any significance, but an authoritarian state at the apex whose main productive function, for climatic and geographic reasons, was to build and maintain

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<sup>2</sup>It is admittedly puzzling that, except for a few insightful remarks regarding the similarity between Japan's feudal organization of landed property and that of Western Europe during the middle ages in a footnote in *Capital*, Vol. I, p. 718, Marx had next to nothing to say about Japan's successful defensive modernization which began under the (late) Tokugawa dynasty (1853-1867) and was intensified under the Meiji Restoration (1868-1912). Just a casual acquaintance with Japanese economic history during this period would have directly challenged (and refuted) Marx's views regarding the stagnant and unchanging nature of the Asiatic mode of production. For further details, see Avineri (1969, pp. 254-550; and Baran (1957, Chp. V).

<sup>3</sup> Both Brewer (1990) and Avineri (1969) are of the opinion that, among his contemporaries, Marx's knowledge of Indian (and Chinese) society was unsurpassed when it came to historical and institutional detail, and also in terms of outlining the long-run impact of European imperialism on the socio-economic structure of these colonies. See also Howard and King (1985).

large-scale irrigation works (financed via the taxation of the surplus production of the villages) [see *Capital*, Vol. I, pp. 357-8; and Brewer, 1990, pp. 53-57]. These special and unique set of historical, institutional, and geographic factors led Marx to conclude that the resilience of the Asiatic mode of production might be strong enough to prevent globalization (imperialism) from accomplishing its historical mission as the following passage from his article “Trade with China” (1858) attests,

It is this same combination of husbandry with manufacturing industry, which, for a long time, withstood, and still checks, the export of British wares to East India; but there that combination was based upon a peculiar combination of the landed property which the British, in their position as the supreme landlords of the country, had it in their power to undermine, and thus forcibly convert part of the Hindoo self-sustaining communities into mere farms, producing opium, cotton, indigo, hemp, and other raw materials, in exchange for British stuffs. In China, the English have not yet wielded this power, nor are they likely *ever to do so* [my emphasis] (p. 47)

Marx’s careful and detailed studies of British trade with China also led him to formulate the following explanation for the British capitalists’ inability to penetrate the Chinese cloth market via trade alone: The underlying reason that British [and American] manufacturers could not penetrate and undersell “cloth woven by hand in the most primitive looms” stemmed from the unique ability of these self-sufficient Chinese villages to combine and coordinate their family labor, old and young, during the agricultural off-season not only to card and spin the cotton into yarn, but also to weave it into homespun stuff (cloth) with which “nine out of every ten beings in this country are clothed” (ibid., p. 45).<sup>4</sup> Moreover, the village’s possession (not ownership) of land and

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<sup>4</sup> Marx makes a similar assessment regarding the limited size of the Chinese market in his article entitled, “The Anglo-Chinese Treaty” (October 5, 1858) where he states that “It appears... that, generally speaking, the consuming powers of the Celestials have been greatly overestimated. With the present economical framework of Chinese society, which turns upon diminutive agriculture and domestic manufactures as its



the instruments of production, both privately and in common, including a loom in “every well-conditioned homestead,” enabled them to avoid being undercut by “the most advanced factory system of the world” (ibid.)<sup>5</sup>

It might be objected that these journalistic pieces, pregnant with institutional insight and historical detail as they are, do not form part of Marx’s more serious and mature works, such as those found in *Capital* or the *Grundrisse*,<sup>6</sup> but as the following passage from Vol. III attests, there is much continuity and consistency in Marx’s views on the nature of the Asiatic mode of production and the ability (or better still, inability) of British capitalism to penetrate and subjugate it.

The obstacles presented by the internal solidity and organization of pre-capitalist, national modes of production to the corrosive influence of commerce are strikingly illustrated in the intercourse of the English with India and China. The broad basis of the mode of production here is formed by the unity of small-scale agriculture and home industry, to which in India we should add the form of village communities built upon the common ownership [possession] of land, which...was the original form in China as well. In India the English lost no time in exercising their direct political and economic power...English commerce exerted a revolutionary influence on these communities and tore them apart only in so far as the low prices of its goods served to destroy spinning and weaving industries...And even so this work of dissolution proceeds *very gradually* [my emphasis]. And still more slowly in China, where it is not reinforced by direct political power. The substantial economy and saving in time afforded by the

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pivots, any large import of foreign [British] produce is out of the question” (p. 36). See also his article entitled, “The British and Chinese Treaty” (October 15, 1858).

<sup>5</sup> There is no escaping the stark contrast between Marx’s remarks above and those which he made ten years earlier in the CM where he declared in no uncertain terms that, “The bourgeoisie, by the rapid transformation of all instruments of production, by the immensely facilitated means of communication, draws all, even the most backward, nations into civilization. The cheap price of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the underdeveloped nations’ obstinate hatred of foreigners to capitulate” (1964 [orig., 1848], p. 64)

<sup>6</sup> In Notebook V, “The Chapter on Capital” of the *Grundrisse*, Marx makes essentially the same point. He declares that “The Asiatic form necessarily hangs on most tenaciously and for the longest time. This is due to the presupposition that the individual does not become independent vis-à-vis the commune; that there is a self-sustaining cycle of production, unity of agriculture and manufactures, etc. If the individual changes his relation to the commune, he thereby changes and acts destructively upon the commune; as on its economic presupposition” (1973 [1858], p. 486; for similar remarks, see Notebook IV, [1857-58], pp. 472-475).

association of agriculture with manufacture put up a stubborn resistance to the products of the big industries, whose prices include the *faux frais* of the circulation process which pervaded them (pp. 333-34).

Of course, if one accepts Marx's reluctant conclusion that these self-sufficient village communities are not going to disappear anytime soon (if ever) as he hoped they would, then as Avineri (1969) correctly observes, "Marx's concept of the Asiatic mode of production thus poses a serious challenge to the assumption that Marx developed a philosophy of history universal in its applicability" (p. 234). In similar vein, Howard and King (1989) suggest that the late Marx, influenced by the Russian populists, no longer accepted the inevitability of the universality of capitalism (globalization) as a precondition for socialism, and took seriously the idea that it was possible for Russia (a semi-Asiatic country in his mind) to forge a unique non-capitalist path to socialism led by the peasantry and intellectuals, rather than the revolutionary proletariat.

Both Howard and King's and Avineri's interpretation is corroborated by a series of highly interesting and remarkable letters Marx wrote on Russian social, political, and economic issues during the 1870s, and also by what Marx and Engels wrote in the Preface to the Russian edition of the *Communist Manifesto* on January 21, 1882, a little over a year before Marx's death. Turning to the letters, for example, in November 1877, Marx wrote a rejoinder to the editorial board of the Russian socialist journal *Otechestvenniye Zapiski* [Fatherland Notes] where he declares that "In order that I might be specially qualified to estimate the economic development in Russia, I learned Russian, and then for many years studied the official publications and others bearing on this subject. I have arrived at this conclusion: If Russia continues to pursue the path she has followed since 1861 [abolition of serfdom], she will lose the finest chance ever offered

by history to a people and undergo all the fatal vicissitudes of the capitalist regime” (p. 439). More startling, perhaps, is what Marx writes later on in the same letter where he suggests that the inevitability of capitalism, as proclaimed, in the CM and *Capital*, is confined to a “little corner” of the world, viz., Western Europe, and is not applicable in a mechanical fashion to the non-European (Asiatic) world. He warns his readers not to:

Metamorphose my historical sketch of the genesis of capitalism in Western Europe into a historico-philosophic theory of the general path every people is fated to tread, whatever the historical circumstances in which it finds itself, in order that it may ultimately arrive at the form of economy which ensures, together with the greatest expansion of the productive powers of social labor, the most complete development of man. But I beg his pardon. (He is both honoring me and shaming me too much.) (p. 441).

Interestingly enough, Marx then goes on to describe similar developments [to the forcible separation of peasants from their land under feudalism] in different historical periods, such as the expropriation of the plebeians [free peasants] of ancient Rome, and concludes that it did not lead to the creation of proletarians and capitalists, but to a mode of production based on slavery, thus he concludes that “events strikingly analogous...led to totally different results...[and] one will never arrive there by using as one’s master key a general historico-philosophical theory, the supreme virtue of which consists in being super-historical” (p. 441). Finally, Marx believed that Russia’s “finest chance” of pursuing a successful and unique non-capitalist development to communism was predicated on a proletarian-led revolution in Western Europe, given the relative backwardness of Russia’s economy and its agrarian communes, the so-called *obshchina*. In the Preface to the Russian edition of the *Communist Manifesto* Marx and Engels write,

The Communist Manifesto had, as its object, the proclamation of the inevitable impending dissolution of modern bourgeois property. But in Russia we find, face-

to-face with the rapidly flowering capitalist swindle and bourgeois property, just beginning to develop, more than half the land owned in common by the peasants. Now the question is: can the Russian *obshchina* though greatly undermined, yet a form of primeval common ownership of land, pass directly to the higher form of Communist common ownership? Or, on the contrary, must it first pass through the same process of dissolution such as constitutes the historical evolution of the West? The only answer to that possible today is this: If the Russian Revolution becomes the signal for a proletarian revolution in the West, so that both complement each other, the present Russian common ownership of land may serve as the starting point for a communist development (January 21, 1882).

Marx, anticipating Gerschenkron's (1965) ideas relating to the advantages of relative backwardness, seems to suggest that Russia, as a late late-industrializer, could substitute for the "missing factors" by importing and using the more advanced Western industrial and agricultural technology, broadly defined, and "leap frog," under the right political and external conditions, into a higher mode of production without having to experience the trials and tribulations of generating capitalism from within.<sup>7</sup> In relation to this point, there is no other interpretation a disinterested reader can infer from the remarkable letter Marx wrote in March, 1881, to Vera Zasulich where he emphatically states that "the historical situation of the Russian "rural commune" is unparalleled! Alone in Europe, it has kept going not merely as scattered debris such as the rare and curious miniatures in a state of the archaic type which one could still come across until quite recently in the West, but as the virtually *predominant* [my emphasis] form of popular life covering an immense empire. If it possesses in the communal ownership of the soil the basis of collective appropriation, its historical surroundings, its contemporaneity with capitalist production, lend it all the material conditions of communal labour on a vast scale. It is thus in a position to incorporate all the positive acquisitions devised by the capitalist system without passing through its Caudine Forks [i.e., undergo humiliation in defeat]. It can

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<sup>7</sup> For further details, see Marx's article entitled, "On Social Relations in Russia" published between 1874 and 1875, *Marx & Engels, Collected Works Volume 24*, p. 39.

gradually replace parcel farming with large-scale agriculture assisted by machines, which the physical lie of the land in Russia invites. It can thus become *the direct point of departure* for the economic system towards which modern society tends, and turn over a new leaf without beginning by committing suicide.”

It is readily apparent that the late Marx [and to a lesser degree Engels] had significantly modified his earlier views in the *Communist Manifesto* on the universality and inevitability of the globalization process as it evolved in Western Europe and no longer believed, if he ever did, that a “one-hat-fits-all” explanation was suitable for understanding the emergence of capitalism and its metamorphosis into a higher mode of production, particularly when it came to the Asiatic or semi-Asiatic modes of production prevalent in India, China, and Russia.

### III. Is Globalization’s Trigger Mechanism the “The Law of the Tendency of the Rate of Profit to Fall”?

It is claimed by some Marxist scholars that “the trigger mechanism that guarantees globalization is Marx’s “law of the falling tendency of the rate of profit,” and that Marx believed that the “law” worked itself with an “iron necessity” via “foreign direct investment, technology transfer, and the internationalization of the working class,” culminating in a “global, unified capitalist society” (see Jellison and Gottheil, pp. 38 and 45). From which it follows that if this ‘law’ is invalid then was “Marx’s call on globalization... just a lucky shot-in-the dark?” (p. 45).

Before addressing this claim, it is useful to briefly summarize what Marx had to say about the “law as such.” He believed that competition for profits forces capitalists to

search for new methods of production and markets [for goods and raw materials] in order to reduce their costs below the prevailing average costs of production. By and large, those capitalists who innovate first do so with labor-saving technology and are able to temporarily reap an above normal or super profit before competition forces down prices in line with the lower unit costs, thus eliminating both super profits and the high cost producers. Marx generally assumed that the accumulation of capital generated by this fierce competitive struggle would lead to a tendency for the average rate of profit to fall [ $r = s' / (q + 1)$ ] because, *ceteris paribus*, the organic composition of capital ( $q = c/v$ ) would rise more rapidly than the rate of surplus value ( $s' = s/v$ ) [i.e., for a given absolute length of the working day]. But, nothing definite can be said about the law because the increase in the organic composition of capital that reflects the rising social productivity of labour also generates an offsetting increase in the rate of surplus value, one which might be strong enough to prevent a fall or even raise the rate of profit, particularly if the increase in productivity is greater in those industries producing wage goods.<sup>8</sup> However, in Marx's defense, he never tired of emphasizing that he viewed the law of the declining rate of profit to be just that, a "tendency" which would prevail in the long run, but one that would be subject to a number of counteracting forces which in the short to medium run would "cross and annul the effect of the general law" (Capital III, p. 232; for further details, see Sowell, 1967).

Among the counterbalancing factors noted by Marx are increases in the intensity ("speedup") of exploitation (which raises the rate of surplus value,  $s'$ ), depression of wages below the value of labor-power (to the same effect), the growth of the relative

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<sup>8</sup> For further details, see Meek (1967, pp. 130-31), Perlo (1988, pp. 131-36), and Sweezy (1970, pp. 102-03).

surplus-population which encourages the expansion of labour-intensive industries (again raising  $s'$ ), and of particular relevance to the geographic expansion of capitalism or globalization, and discussed below, is the growth of foreign trade [and the export of capital] (Ibid., Chp. XIV). It is also important to emphasize that Marx discussed this 'law' in the context of cyclical crises, and although some Marxist scholars contend that Marx viewed the fall in the rate of profit as the sole or primary explanation for the onset of economic crises (e.g., Dobb, 1939; and Mandel, 1971 [orig., 1968]), other scholars strongly disagree and argue that Marx had several competing explanations for business (industrial) cycles, including explanations based on disproportions between the various branches of production arising from the anarchy of capitalist production as well as those associated with underconsumptionist tendencies (see Brewer, 1984 and 1990; Howard and King, 1985; Perlo, 1988; Ramirez, 2007; Sherman and Evans, 1984; and Sweezy, 1970 [1942]) .

At this juncture, it is conceptually useful to group Marx's analysis of the periodic fluctuations in the industrial cycle (as he called it) into two distinct theories: 1) those based on factors responsible for the production of surplus-value (and therefore profit), and 2) those that emphasize the conditions that must be present for its full realization (see Vol. III, pp. 244-5). In the language of current economic theory, the former can be conveniently referred to as supply-based theories, while the latter are clearly based on demand-side considerations. Marx' falling rate of profit explanation is a supply-based theory that implicitly assumes that up until the precise moment of the crisis the surplus-value produced was being realized; i.e., "until the crisis actually breaks out, all commodities can be sold at their values" (see Sweezy, p. 155). In other words, a falling

rate of profit would not in and of itself create crises. By contrast, realization crises, whether they arise from disproportions between the major branches of production and/or a lack of purchasing power by the majority of the population are demand-side explanations.

Now, Marxian economists who posit a causal link between the falling rate of profit and the geographic expansion of capitalism generally make the following argument: the fall in the average rate of profit [itself the result of a fierce competitive struggle] drives the capitalists from the more developed capitalist nations to seek out higher rates of profits in new markets via the expansion of foreign trade and the export of capital [globalization]. The reason that capital invested in “colonial trade” generates more profits for the capitalists in the advanced countries arises from the fact that they can undersell their competitors in the less developed countries who utilize inferior technology, yet still pocket a surplus-profit (by selling their commodities above their socially determined values). In addition, Marx foresaw before many of his contemporaries that capital invested in less developed nations yields a higher rate of profit<sup>9</sup> “for the simple reason that the rate of profit is higher there due to backward development [lower organic composition of capital], and likewise the exploitation of labour [higher rate of surplus value], because of the use of slaves, coolies, etc. Why should not these higher rates of profit, realized by capitals invested in certain lines and sent home by them, enter into the equalization of the general rate of profit and thus tend, *pro tanto*, to raise it, unless it is the monopolies that stand in the way ” (p. 238).

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<sup>9</sup> Lenin (1984 [1917]), of course, in his *Imperialism, The Highest Stage of Capitalism* would expand upon Marx’s original insight and argue that under the monopoly capitalism of his day the necessity of exporting capital (direct foreign investment) to backward countries in search of higher profits arises from the “superabundance of capital” accumulated in the advanced countries (see pp. 62-67).



But Marx was quick to point out that the expansion of foreign trade [and the export of capital which often accompanies it], by supplying capitalists with cheaper means of production and workers with less expensive food and clothing would also, *ipso facto*, strengthen the counteracting influences by enabling capitalists to raise the rate of surplus value while advancing the same amount capital. In Marx's words, "foreign trade partly cheapens the elements of constant capital, and partly the necessities of life for which the variable capital is exchanged, [thus] it tends to raise the rate of profit by increasing the rate of surplus-value and lowering the value of constant capital. It generally acts in this direction by permitting an expansion of the scale of production" (see Vol. III, p. 237). Thus, insofar as Marx is concerned, there is "no iron" necessity between the falling rate of profit and globalization because "the same influences which produce a tendency in the general rate of profit to fall, also call forth counter-effects [via foreign trade and the export of capital], which hamper, retard, and partly paralyze this fall...thus the law acts only as a tendency. And it is only under certain circumstances and only after long periods that its effects become more pronounced" (Capital III, p. 239).

In view of Marx's two-fold explanation of crises, several Marxian scholars contend that, although Marx gave a central role to those factors responsible for the production of surplus-value, he also believed that in the competitive capitalism of his day there were strong underconsumptionist tendencies which drove capitalists to seek out new markets, both at home and abroad, in order to fend off recurrent realization problems (see Amin, 1974; Brewer, 1990; Howard and King, 1985; Sherman and Evans, 1984; Sweezy, 1979 [orig., 1942]). In the CM, for example, Marx stresses the importance of colonial markets

for capitalism when he declares that “The need for a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere” (p. 63). Elsewhere, Marx’s explanation for what drives capitalists to seek ever-expanding markets is not entirely clear. For example, some of his statements in *Capital* on this issue appear to suggest that it is the *direct* result of a lack of purchasing power on the part of the working class. For example, he writes in Volume III,

As matters stand, the replacement of the capital invested in production depends largely upon the consuming power of the non-producing classes; while the consuming power of the workers is limited partly by the laws of wages, partly by the fact that they are used only as long as they can be profitably employed by the capitalist class. The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit (p. 484; for similar statements see Vol. III, pp. 244-5, 250, and 256-8; and Vol. II, p. 320).

What makes the preceding quote puzzling is that we also know that Marx was highly critical of vulgar underconsumption theories advocated by classical economists such as Chalmers, Malthus, Rodbertus, and Sismondi (see Brewer, 1984 and 1990; Howard and King, 1985; and Sowell, 1967). In fact, he warns his readers against a theory which explains crises solely in terms of a lack of workers’ purchasing power because it is often the case “that crises are always prepared by precisely a period in which wages rise generally and the working class gets a larger share of that part of the annual product which is intended for consumption. From the point of view ... of sound and simple (!) common sense, such a period should rather remove the crisis” (Vol. III, p. 411).

Despite Marx's ambiguous and, at times, conflicting statements on the causes of deficient aggregate consumption, several prominent scholars believe that the most plausible interpretation of Marx's views on aggregate effective demand is that it was generated not only by workers, but also by capitalists in the form of purchases of investment and consumer goods (see Amin, 1974, pp. 90-123; Howard and King, 1989, pp. 112-124; Robinson, 1942, p. 49; Sowell, 1967, pp. 50-74; Sherman and Evans, 1984, pp. 257-67; and Sweezy, pp. 176-8). Marx showed, for example, via his reproduction schema (departments 1 and 2) in Vol. II of *Capital* that capitalist (simple) reproduction is possible provided that capitalists buy those consumer goods that workers cannot afford to purchase. In expanded reproduction, on the other hand, capitalists still consume each others' surplus products, but now spend part of the (growing) surplus funds on both means of production and labor (variable capital), with the ratios  $c/v$  and  $s/v$  held constant (see pp. 398-402; cf., pp. 509-518). Marx arbitrarily assumes that department 2 (which produces articles of consumption) passively buys whatever department 1 (which produces investment goods) makes available, thereby making it possible for aggregate demand to expand in line with aggregate supply in successive cycles (see Brewer, 1984, pp. 113-123).<sup>10</sup>

But, showing that accumulation is theoretically possible in a closed capitalist system is a far cry from the way historical capitalism actually appeared and expanded in a non-capitalist world. Marx believed that capitalism, continually threatened by a lack of effective demand as a result of the exploitation of workers and the capitalists' drive to

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<sup>10</sup> *Apropos*, Brewer observes that this is "a rather strange assumption... There is nothing in the working of a capitalist system to induce this sort of co-operative behavior; if anything the assumption might be more appropriate for a planned economy. Given this assumption, it is not surprising that accumulation proceeds smoothly" (p. 123)

accumulate, needed to [and historically did] find enough outlets outside the system, via the conquering of new markets, in order to realize the ever-increasing surplus-value produced within it. In this connection, Rosa Luxemburg deserves much credit for emphasizing this very point later on in her major theoretical work, *The Accumulation of Capital [1913]*, by attempting to show (erroneously as it turned out) that under expanded reproduction, imperialism was absolutely essential to the survival of capitalism because it served to widen the limits of capitalist accumulation, thereby helping overcome capitalism's inherent tendency to expand its capacity to produce more rapidly than its capacity to consume (see Amin, 1974, pp. 94-100; Brewer, 1990; Howard and King, 1989; and Sweezy, 1942, pp. 202-07).

#### IV. Conclusion

This paper has shown that Marx's views on globalization and its supposed inevitability underwent a substantial evolution and revision, even as early as five years after the publication of the *Communist Manifesto*. In his writings relating to India, and particularly China and Russia, Marx is no longer certain that "the country that is more developed industrially only shows, to the less developed, the image of its own future" (Vol. I, p. 13). In the case of China, a prime example of the Asiatic mode of production, he even doubted whether globalization (capitalism) would ever be able to accomplish its historical mission of developing the forces of production and creating the material conditions for a higher mode of production, viz., Communism. While in the Russian case, a semi-Asiatic country in his mind, he seriously entertained the notion, towards the end of his life, that it could bypass the hardships and vicissitudes of capitalism and forge its own unique path to

socialism provided that it received help from a proletarian-led revolution in Western Europe. These are no small matters, for, if accepted, they represent a serious challenge to the universality and validity of Marx's materialist conception of history: the idea that each historical stage, say capitalism, grows dialectically out of the internal contradictions (tensions) of the previous stage, feudalism, and so on.

The paper also addressed the issue of what role, if any, the law of the tendency of the falling rate of profit plays in the geographic expansion of competitive capitalism. Contrary to recent claims, it contends that Marx did not believe there was an iron-clad connection between the falling rate of profit and globalization; and secondly, it argues that in addition to Marx's supply-based explanation of crises, he also believed that the capitalists' insatiable search for colonial markets was driven by their desire to overcome recurrent (and growing) realization problems in the home market arising from deficient aggregate demand on the part of both workers and capitalists.

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