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Hilferding over Marx: A Political Economy Viewpoint of the Struggles in the Left 1900-1933 and the Modern Revival.

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Abstract: *Recent heterodox economic literature makes reference to Hilferding's "Finance Capital" and Lenin's "Imperialism" as early insights on the phenomenon of Financialization of capital. In this regard ideas which became dominant in the left during the first decades of the previous century are applied in the explanation of the current crisis, as well as the understanding of contemporary capitalism from a methodological, analytical and political standpoint. This paper traces the underlying argument of the Monopoly model and its main political applications in the first three decades of the 20th century, in an effort to draw rough historical analogies with its revival in contemporary literature. It is argued that the Hilferding model, from which Lenin's "Imperialism" is derived, has very little or nothing to do with Marx's economics but much to do with the neoclassical theory of Monopoly and Oligopoly. This theoretical association abolishes labor value theory from the analytical framework and with it any possibility of inherent breakdown (depression) in capitalist accumulation. Consequently political economy was pushed to the background and the confrontations between Lenin and Kautsky and subsequently Trotsky, Bukharin and Stalin were fought around political and geopolitical considerations a factor which played important part in the outcome. But the most astonishing historical fact is that the revolutionary flood which shook Europe until 1930 gave place to the dominance of the extreme right when circumstances were most favorable for the left in the years of the "great depression". Drawing from this it is argued further that the main analogy between the 1930s' and the present is that both back then and now the left is attempting to intervene in a depression environment without a depression theory. Disproportional growth between sectors was the cause of crisis in Hilferding, a contradiction which under the dominance of "Finance Capital" would be resolved and capitalism would move to an "organized stage". In the same fashion disproportional growth of the financial sector relative to the corporate sector, which emerged following the "great stagflation", is the cause of the present crisis for contemporary heterodox literature. Crisis can be resolved through state regulation in this line of thought, since Financialization of capital is understood independently from the inherent contradictions of profit motivated growth. In the absence of a depression theory this part of heterodox economics has drifted in a "witch hunt" on whether capital will resolve the crisis introducing a new era of "regulated capitalism" or power shifts in favor of financial capital will preserve the present state of affairs. In the meantime, economic policy suggestions and the political agenda is surrendered in the hands of mainstream economics and right wing politics.*

Introduction:

The outburst of the current crisis has triggered fresh interest in Marxist and heterodox economics. However a good deal of recent heterodox economic literature (Lapavitsas 2009¹) has been focused in identifying a new set of economic relations allegedly unique to the current episode in the history of capitalism, while others consider the present crisis a result of the stagnant nature of Monopoly capitalism (Sweezy P. 1997²). This treatment of capitalist dynamics bears no novelty both in terms of methodology and analytical conclusions. Actually the proponents of this set of theories point to the works of Hilferding (Hilferding R. 1910³) and Lenin (Lenin V. 1916⁴) as examples of their methodological approach and in part of their analytical conclusions. This paper attempts to trace the intellectual origins of the view of capitalism as sequence of stages in historical context.

The purpose of this venture, through the exploration of the argument underlying the Hilferding model, is to identify historical analogies between the 1930's and the present using political economy models in each period as frame of reference. My interest was triggered from the fact that the left has performed its worst at depression times, that is at times when one would expect it to dominate and besides actual difficulties the absence of a depression theory certainly played a part.

The paper is structured as follows: The first section (I) explores the "breakdown debate", which was the central theme in the left during the first decade of the previous century, in order to explore the reasons for the dominance of the Hilferding model. In the second section (II) the argument underlying "Finance Capital" and its association with mainstream economics are explored. The third and fourth (III, IV) section is devoted to the incorporation of the Monopoly model by the Bolshevik party and the Comintern respectively. In the fifth section (V) the political economy standing behind the clashing political lines inside the Bolshevik party in the 1920's are presented. The next section (VI) discusses the modern revival of the "stage" argument and the final section summarizes.

I. Historical and Intellectual Background. (The "Breakdown Debate")

It was at the eve of the previous century when the left of the time, represented in great part by the 2nd international, engaged in a debate on whether a "breakdown" is inherent in the dynamics of capitalist accumulation. The recovery of world capitalism from 1870-1890 depression drove prominent members of the international to proclaim the need to "revise" the Marxist heritage of the old social democracy. Economic works of the time, coming mainly from "legal Marxists", argued that capitalism is an ever growing system, growth interrupted by recessions like the five and ten year cycles observed in capitalist economies, the latter attributed to disproportional-ties of various forms. Concluding that socialism does not emerge from economic necessity the "revisionists" preached in favor of gradual reforms ensuring that the working class will improve its position in the process of capitalist growth. This was the political line of the "right" wing of the old international where Edward Bernstein was the most prominent figure (Bernstein 1899⁵).

The most esteemed Marxist theorist of the time Karl Kautsky, who has the father of the term "revisionists", did not particularly contest the notion of unimpeded growth under capitalism, although in various parts of his writings one can find under-consumption arguments. What he practically did was to reduce the notion of "breakdown" to a situation of an irreversible downturn in capitalist accumulation and argue that no such conviction was held by Marx. On these grounds he teamed with O. Bauer who took the argument further suggesting that the law of the falling rate of profit cannot function as the basis of a "breakdown theory". In this regard Bauer presented a simulation of Marx's schemes of expanded reproduction (Bauer 1913⁶) showing that although the rate of profit kept declining by construction, profits (mass of profit) increased. The simulation was misleading, Bower stopped calculating after the fourth period but when the simulation is extended to multiple periods the mass of profit declines indicating a breakdown in accumulation, however this was shown almost twenty years later by Henryk Grossman (Grossman 1929⁷). For the time Kautsky and Bauer, agreeing that socialism is a matter of "social consciousness" and not economic necessity, formed the "center" faction of the 2nd International. The political line of the "center" accepted the preaching of the right that the labor class should make the most of accumulation under capitalism but kept also the socialist potential as a matter for the future.

What identified the left of the international was the conviction that the interests of the troubled masses cannot be satisfied in the capitalist mode of production and this will inevitably lead to an insurrection led by the working class. In this context the primary duty of social democracy was to agitate and prepare this liberating event. Both prominent figures of the "left", V. Lenin and R. Luxemburg, shared this revolutionary commitment however they took different approaches on the "breakdown" issue.

Luxemburg acknowledged that if capitalism was a system of unimpeded growth then socialism "loses its granite foundation of objective historical necessity" deducted to the "mere

injustice and badness of the present-day world and from the mere revolutionary determination of the working class". But her effort, to base revolutionary commitment on economic grounds, fell short of its objective. In the book "Accumulation of Capital" (Luxemburg R. 1913⁸) Luxemburg put forward an under-consumption argument, suggesting that growth in capitalism was contingent on demand coming from non-capitalist regions. She proclaimed that an increasing gap between workers consumption, capitalist consumption and replacement of machinery on one hand and total product value on the other prevails in capitalist reproduction. It made no sense, to her, for capitalists to close this gap through savings and investment since the capitalist class will be realizing this way part of its own surplus value. Missing the mere fact that this is exactly what capitalist production is all about, to invest profits, borrowed funds or both in an effort to make more profits, she concluded that when capitalism will dominate globally this will coincide with its inevitable end since value will remain unrealized.

Lenin recognized in Luxemburg's work the under-consumption argument of the Narodniks he had attacked in his 1899 pamphlet "The Development of Capitalism in Russia" (Lenin V. 1899⁹). In his view crises emerge because of disproportional growth of department I (production of means of production) relative to department II (production of means of consumption) a fluctuation similar to the ten year cycle observed in capitalist economies. Therefore contrary to Luxemburg the historical necessity of socialism does not emerge from the inherent contradictions of growth under capitalism. It is capitalist development itself, leading to the greatest socialization of production and the narrowest personal appropriation of its results, which brings the necessity for socialist transformation (Lenin 1913¹⁰). A position similar to that of the "center" with the difference that Lenin held the conviction that the capitalist state cannot be transformed to a socialist one (Lenin 1917¹¹) and that the impulsive insurrection of the masses can be turned to a conscious struggle for socialism only through the mediation of the vanguard of the proletariat, in other words the communist party, the latter his most important political invention in the words of the Marxist historian Eric Hobsbawm.

In conclusion the first decade of the 20th century found the left of the day in absolute confusion on the argument underlying Max's Capital. Especially for the center and the left faction, at a time when strong growth, which followed the last depression, was beginning to fade and the drums of the forthcoming war were clearly heard, a persuasive argument supporting the preaching for socialism was missing. This was the reason which led both the center and the left to clink so heavily on the book by Rudolf Hilferding "Finance Capital" which came out in Vienna in 1910. The books' main argument claimed to originate from Marx's theory of concentration and centralization of capital, Marx's most undisputed prediction in the words of Wassily Leontief. It also signaled strong political messages suggesting that capitalism was headed to an "organized stage" which was the best preparation for socialism as understood by the center, at the same time possible conflicts arising from the "urgent need" for capital export in the era of monopoly suited the call for revolt preached by the left. However, between the origin of the argument and the strong political messages derived from it stands a basically neoclassical model as elaborated in the next section.

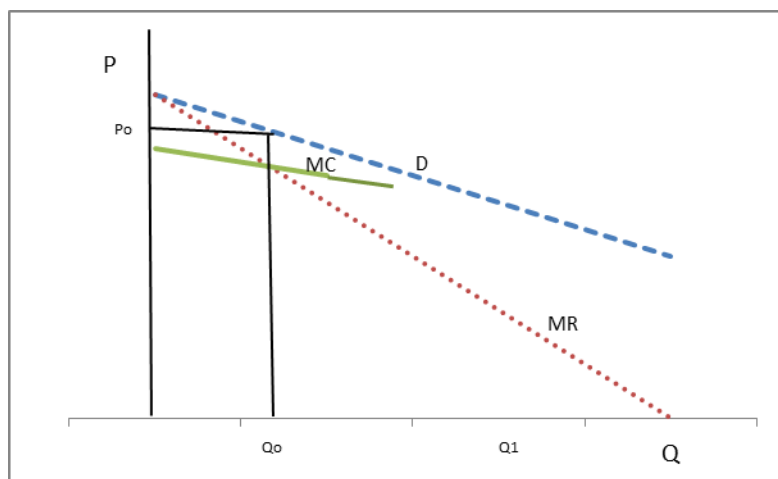
The argument underlying "Finance Capital" was overshadowed by the political messages derived from it and the book was greeted with enthusiasm by the "center" and the "left" faction of the old international. Kautsky named the book the "fourth volume of capital", Bukharin and Lenin wrote derivative works based on it and it was only Bernstein who criticized its content. The critique however was limited to the part relating to the appearance of tariffs at the "latest stage of capitalist development" which in Bernstein's view was not consistent with the ever growing capitalism he visualized.

At the eve of a war which was about to change everything including the international itself the dominance of the monopoly model marked the partition of Marxist political economy from the political movement of the left, a gap which lasts to this day with few exceptions.

II. Monopoly Capitalism – The Hilferding Model

“The latter [Monopoly prices-NS] would themselves be determined, however, by the reciprocal relationship between costs of production and volume of output on the one hand, and prices and the volume of sales on the other. The monopoly price would be that price which makes possible a volume of sales such that the scale of production does not increase the costs of production so greatly as to reduce the profit per unit significantly. A higher price would reduce sales, and hence the scale of production, thus raising costs and reducing the profit per unit of output; a lower price would reduce profit so greatly that even the greater volume of sales would not compensate for it” (Hilferding 1910³)

Well we have all seen this price determination format somewhere and we can find out where if we present it graphically. We have a negatively sloped demand curve (D curve below), a linear negatively sloped unit cost curve, ensuring that marginal cost declines with the scale of production which implies that total cost will decline as well (MC curve below) and we need a marginal revenue curve in order to determine profit maximization (MR curve below). The following graph pictures the curves:



This graph is copied from a micro neoclassical text book (Henderson & Quant 1987¹²) similar constructions can be found in any neoclassical micro textbook. Point (P₀, Q₀) on the demand curve (D) has the properties indicated by Hilferding irrespective of whether the monopolist is a price or a quantity setter. Like Hilferding the neoclassical economist states: “The monopolist can increase her profit by increasing (or contracting) her output as long as the addition to her marginal revenue exceeds (or is less than) the addition to her cost (MC)” (H&Q p. 179).

In order to dispense any doubts on whether the above association might be a misconception of his writings Hilferding states:

“Monopoly price can indeed be fixed empirically, but its proper level cannot be apprehended in an objective theoretical manner, only grasped psychologically and subjectively. ... If monopolistic combinations abolish competition, they eliminate at the same time the only means through which an objective law of price can actually prevail. ... *It seems that the monopolistic combine, while it confirms Marx's theory of concentration, at the same time tends to undermine his theory of value.* [Emphasis added – NS]” (Hilferding 1910³)

The extract does not leave any room for misconception, the process of accumulation and the consequent concentration of capital abolishes competition and with it labor value.

Thus, surplus value, the tendency of the rate of profit to fall and finally the inherent possibility of a depression i.e. of a breakdown in accumulation are also abolished. All of the above rest on Hilferding's view on the dominant position of the neoclassical Monopolist in the market.

This is a quite amazing result; capitalism can solve its basic inherent contradictions by a simple agreement, between capitalists to curtail production provided that their collective control over output is sufficient and sustainable. However, this miracle rests on a misconception from Hilferding not just of "Monopoly capitalism", if such economy ever exists, but of capitalism in general. Although he considers that mechanization increases in the process of capitalist development, this process is contingent upon competition. He states:

"The achievement of the largest possible profit is the motive of every individual capitalist, and becomes the guiding principle of his economic action as a necessary *consequence* [emphasis added-NS] of the capitalist competitive struggle." (Hilferding 1910³)

And to clear any possible doubt he adds:

«... the tendencies which give rise to a protracted decline in the rate of profit and in its average level, ... can only be overcome by eliminating *their cause – competition* [emphasis added-NS].»

This is definitely not the case in Marx. In capital VI (Marx 1896¹³) Marx argues that automation becomes the dominant form of increasing the social productivity of labor and this is done not to get additional profit from other capitalists but to increase the extraction of relative surplus value from workers, the source of profit in capitalism. Mechanization, thus results from the labor process itself. This inherent tendency, as we know, leads to an increasing organic composition of capital and a declining rate of profit as presented in Capital VIII. Competition does not produce this law of capitalist accumulation (declining rate of profit) it makes it evident. Because capitalist competition emerges out of the fundamental conflicting production relations in capitalism, it is not a game it is a «war» fought with the «cheapening of commodities», it decides who lives or dies. For the capitalist it imposes an investment criterion on the inherent process of mechanization, mechanization must reduce the unit cost of commodities and increase the profit margin at the highest possible rate of profit. But this does not necessarily imply an increased corporate rate of profit following the transient period when old prices prevail, on the contrary it implies a lower profit rate in most of the cases since «the increase in the productive powers of labor must be paid for» as Marx states. In other words more productive techniques involve lower unit production costs but higher unit investment costs (the capital output ratio increases). Therefore when a more productive technique is implemented the company holding the competitive advantage will cut prices and try to pierce the market share of competitors to make good of its investment, the competitors will be forced to adopt the new technique to protect their profits and consequently the industry rate of profit will decline. Corporations for Marx are not passive «price takers» like the neoclassical firm.

Where does Hilferding stand in all this? Because, he suggests that mechanization depends on capitalist competition that is on the free will of capitalist enterprise (neoclassical present value and IRR models are examples of this investment theory) any new technique does not reduce the rate of profit but conversely increases it, if it does not then the new technique will not be applied in the first place. The following amazing passage is indicative:

«..., if someone produces more cheaply and can sell more goods, thus assuming more room on the market by selling below the current market price, or market value, he does it, and thereby he begins an action which gradually compels the others to introduce the cheaper mode of production and reduces the socially necessary labor to a new and lower level. If one side

[sides are buyers or sellers over the course of the cycle, here Hilferding refers to sellers–NS] has the advantage, everyone belonging to it gains. It is as though they had exerted their common monopoly.»

Under Marx we would anticipate that the «new technique» would result in a lower industry rate of profit once it is generally «introduced» and new lower market prices reign¹. In Hilferding as long as excess supply does not prevail everyone profits from it. Therefore, at the new lower market prices the new technique remains more profitable. This implies that any viable new technique, in Hilferding, has a higher than the average rate of profit. For this last result to hold a specific theory of competition must hold as well and this is no other than the neoclassical theory of perfect competition. In perfect competition the firm is a passive profit maximizer it maximizes profit given the technology (cost curve) and the market price, thus it will apply a new technique only if it has a higher than the uniform rate of profit. Hilferding's «monopoly combination» is so effective because its «constituent parts» are passive neoclassical price takers.

Years following the publication of «Finance Capital» the «Cambridge School» proved that if capitalist firms apply only higher than average rate of profit techniques the rate of profit will not decline, contrary it will increase at the absence of wage increases. But this is not the case in Hilferding, He expressly states that the rising organic composition of capital reduces the rate of profit in «competitive capitalism». Is this a contradiction? I argue it is not and we will see why if we take a closer look in his crisis theory. Prior to presenting the argument, however, it must be stressed that by crisis, Hilferding implies the ten year cycle observed in capitalist economies reflecting adjustments of capital stock to capacity utilization. In this regard He states:

«The higher organic composition of capital, however, is only the economic expression of increased productivity, which means a lower price for the same quantity of commodities. Newly invested capital, therefore, obtains an extra profit, and capital will flow into such spheres of investment. At this point a disruptive factor supervenes. The larger the extra profit to be made from these new investments the more capital flows into these spheres. This movement can only be corrected when the new products of these sectors of industry come on to the market, and oversupply depresses prices» (Hilferding 1910 Ch. 17)

The first half of the extract repeats what has already been said regarding the «choice of technique» issue. Higher profit rate, higher organic composition investments are the only viable. Therefore, the organic composition of capital does not increase because of a higher unit capital output ratio in normal capacity utilization as in Marx, but because of a «disruptive factor». The «disruptive factor» is the tendency of overinvestment in the high organic composition sector(s) (sector I) which arises mainly from profit rate differentials together with a lag in capacity growth resulting from the longer time required to construct capital intensive plants. Therefore, investment allocation is «disproportionately» greater in sector I. In Hilferding, due to the «perfect competition» assumption, technology (not capitalist production relations) is the cause of rising organic composition. Therefore this tendency is not uniform it depends on the production process in each industry this giving rise to persistent and increasing profit differentials. As investment expenditure in sector I gradually turns to capacity the «disproportionality becomes apparent». This is because production in sector II (low profit, low organic composition sector) has already increased due to faster capacity adjustments. As a result general oversupply prevails driving down prices and the average

¹«Yet every such new method of production cheapens the commodities ... [the capitalist-NS] pockets the difference between their costs of production and the market prices of the same commodities produced at higher costs of production ... His method of production stands above the social average. But competition makes it general and subject to the general law. There follows a fall in the rate of profit-perhaps first in this sphere, and eventually it achieves a balance with the rest-which is, therefore, wholly independent of the will of the capitalist» (Marx, 1967, vol. III, ch. 15, pp. 264--265).

profit rate. The rise in the organic composition of capital and the declining rate of profit result from overinvestment in sector I². This is why Hilferding states: «If production is carried on in the proper proportions ... these relations [relative prices-NS] need not change and no disruption [oversupply-NS] need occur.» (Hilferding 1910 ch. 17).

The Hilferding crisis theory of «competitive capitalism» is a poor early version of a series of theories where the organic composition of capital increases from some disruptive factor rather than the inherent tendency of mechanization in capitalist production. All these models share a common element the «perfect competition» assumption which prohibits the adoption of lower profit rate techniques. In this line the Dobb model (Dobb...) is a relevant example and far more consistent argument compared to the one in Hilferding.

Having reduced capitalist competition to perfect competition Hilferding moves to a series of assumptions which support the notion that cartelization is the dominant trend of capitalist development. All these arguments, however, rely on the passive profit maximizing view of the capitalist firm discussed above. The extract which follows is indicative.

Since, these lower production cost lower investment cost techniques are rare and become increasingly rare in the process of capitalist development the following market structure prevails before cartelization:

«... highly developed industries are precisely the ones in which... Not only does the large firm predominate, but these large, capital-intensive concerns tend to become more equally matched, *as the technical and economic differences which would give some of them a competitive advantage are steadily reduced* [emphasis added – NS]. The competitive struggle is ... a struggle between *equals*, which can remain indecisive for a long time, imposing equal sacrifices on all the contending parties.» (Hilferding 1910)

We have companies with no competitive advantage against other companies few or no options to materialize such an advantage and even fewer reasons to exercise these options. At the same time firms are unable to influence price individually by altering production. What is left for them is either to maximize profit given the market price, or to collectively curtail output. This latter option becomes sustainable at the presence of mounting difficulties in the mobility of capital. But the decisive factor which makes cartelization the most profitable option is that capitalist firms taken individually have been reduced to neoclassical profit maximizes.

Hilferding, then attempts to prove why cartelization in one branch gives rise to a general trend towards cartelization but also vertical integration between industries where adequate concentration of capital has occurred. He concludes as follows:

«The limitation of the free movement of capital by various economic factors or property relations (such as a monopoly of raw materials) is indeed a precondition for the abolition of market competition among sellers. Equalization of the rate of profit can only take place by participation in the higher rate of profit through self - cartelization, or through the elimination of cartels by vertical integration. Both methods involve a growth of concentration and thus facilitate further cartelization.» (Hilferding 1910)

The obvious question is how profit rates are equalized between cartelized sectors under limited capital mobility. Well a huge surprise is waiting us since Hilferding few lines below and with reference to the rate of profit of the non - cartelized sector makes the following amazing statement:

« The same price would then produce a lower rate of profit than before, because the price of raw materials (that is, the cost price) had risen. If, previously, the price of the product was 100

² «...decline in the rate of profit is entailed by the change in the organic composition of capital, which has taken place as a result of the investment of new capital» (Hilferding ch. 17)

and the rate of profit 20 per cent, the latter would now fall to 10 per cent because the cost price which was 80 will have risen to 90 as a result of cartelization»

A closer look on the numerical example leaves little room of misunderstanding Hilferding has reduced the rate of profit to a measure given by the formula:

$$r = \frac{p - c}{p} \text{ Eq.(1)}$$

where p, c stands for price and actual unit costs respectively

The only place where such a formula can be considered a measure of the rate of profit is in neoclassical theory where the rate of profit is equal to the marginal product of capital (MPOC). In this case the following relations hold in perfect competition (pc) and monopoly (m) respectively:

$$\frac{dQ}{dk} = \frac{OC}{p} \text{ where } \frac{dQ}{dk} = (MPOC) \text{ and } OC = \text{opportunity costs in (pc) Eq(2)}$$

$$\frac{dQ}{dk} = \frac{OC + EP}{MR} \text{ where } EP = \text{economic profit in (m) Eq (3)}$$

In perfect competition (pc) long run equilibrium price is equal to average total cost (actual and opportunity) and profit minus actual cost equals to opportunity cost (OC) which is the neoclassical unit profit. The ratio of the two (Eq. 2) is the uniform neoclassical normal rate of profit which of course has nothing to do with the rate of profit in classical economics and Marx. Hilferding's definition can be associated only to the neoclassical notion. In monopoly the neoclassical measure is altered because marginal revenue (MR) is different from price (p) and a positive economic profit (EP) is recognized. Eq. (3) can be modified, however, to identify the implications of the equalization argument suggested by Hilferding. Assuming that for $r = OC/MR$, $r = r^*$ i.e. to the normal rate of profit then Eq. 3 can be written as follows:

$$\frac{dQ}{dk} = r = r^* + \frac{EP}{MR} \rightarrow r - r^* = \frac{EP}{MR} \text{ Eq(3')}$$

From monopoly price formation we know that the unit «economic profit» earned by the monopolist and marginal revenue (MR) are provided by the following formulas:

$$EP = \frac{p_m}{e} \text{ Eq(4)}$$

where: p_m = monopoly price and e = demand elasticity

$$MR = \left(1 - \frac{1}{e}\right) * p_m \text{ Eq(5)}$$

substituting 4,5 into 3' we arrive to the following relation:

$$r - r^* = \frac{1}{e - 1} \text{ Eq(6)}$$

And if profit rates are to be equalized between monopolists 1, 2 then the following relation must hold:

$$\frac{1}{e_1 - 1} = \frac{1}{e_2 - 1} \rightarrow e_1 = e_2 \text{ Eq(7)}$$

Eq. (7) implies that when relative prices reflect relative marginal costs then profit rates are equalized like in perfect competition, but between monopoly industries this equalization requires further that monopoly power (reflected in finite demand elasticity) is balanced between sectors. The above are equivalent to an equal markup charged by the monopolist on marginal cost. Similar results were reached in the context of the Cambridge debate on «imperfect competition» of the late 1920's early 1930's and were ruled out as unrealistic. This heroic assumption, however, is needed by Hilferding to rule out the possibility of competition and capital mobility inside the cartelized sector. The main equalizing factor rests on the slope of the negative demand curves faced by «monopoly combinations» as opposed to the infinite elasticity demand curve of the perfectly competitive firm.

But for «monopoly combination» equilibrium to hold the cartelized industry must purchase inputs from a perfectly competitive market if it faces a positive input supply curve then optimization as shown in the previous chart is impossible. Hilferding thus needs another heroic assumption. When the sector purchasing inputs from the «monopoly combination» is ripe for cartelization then it will not form a monopsony through self – cartelization but in order to keep the argument valid it will become vertically integrated with the cartelized industry and the «monopoly combination» will take place at a higher level of capital concentration. Like the heroic assumptions of the neoclassical economist to establish the perfect operation of the free market, Hilferding applies heroic assumptions to establish the trend towards cartelization.

As noted above, the tendency towards higher organic composition is not uniform since it emerges from the conditions of competition between perfectly competitive firms. Therefore, inside the national economy competitive sectors will remain in existence. These sectors are assumed to belong to the final goods industry (food, beverages etc.) and this is because their products are considered perfect substitutes as we will show shortly. Hilferding argues that the rate of profit in these industries will be lower than the cartelized sector and will tend towards the neoclassical risk free rate of profit which is equal to the rate of interest. Assuming further that the average competitive rate of profit prior to cartelization exceeds the rate of interest, Hilferding, suggests that the difference of the two is the (maximum) rate by which the cartelized sector exploits non-cartelized industries. However, the whole argument rests on the following assumption:

«If non-cartelized industry were to form a combination of its own the price of non-cartelized products would not change» (Hilferding 1910)

This is another amazing statement, the competitive industry can -not «pass through» any part of a uniform increase in costs, coming from monopoly inputs, to the final price. This assumption implies that non-cartelized industries face infinite elasticity demand curves like the firms they include or in other words their products are perfect substitutes. From the social relations of capitalist production in Marx the economic model which dominated one century of left thinking based the dynamics of capitalist economies on the elasticity of Marshallian demand curves. Paraphrasing a note by the Marxist thinker Paul Mattick titled «Kautsky from Marx to Hitler» (Mattick 1940¹⁴) we can state «Hilferding from Marx to Marshall».

The argument underlying «Finance Capital» must be by now clear, it is a mix of the neoclassical theory of perfect competition where higher organic composition techniques are considered more profitable together with the reduction of the rate of profit to the neoclassical notion of the marginal product of capital. Specific assumptions on different types of Marshallian industry demand curves determine the market structure and trends. In the remainder of the section I will present the main conclusions of the model which overshadowed the underlying argument.

At first the idea that monopoly combinations exploit the whole society workers, peasants, small capitalists, even consumers in general, broadened the potential audience of the old social democratic parties. Especially in backward countries where labor class was a minority new social alliances could be justified. The political objectives of these alliances,

however, could vary basis the political objectives of the faction dominating each party. For the Bolsheviks, for instance, the argument could be read as an existing potential social majority which could support a socialist revolution comprising of industrial workers, land workers, small and middle peasants.

Furthermore, because cartels will not expand production rapidly because they need restricted supply in order to exist, as investment opportunities decline in the sense discussed above, national capital growth is retarded and huge amounts of financial capital accumulate. Hilferding, thus argues than in the cartelized (advanced) economies the export of capital becomes an «urgent matter». This means that room for potential conflict exists in the competition of financial capitals to grasp new markets and new investment territory. The state as an expression of the national ruling class protects local cartels through tariffs and supports them in their international expansion with diplomacy and canons. These two conclusions were grasped by the Bolsheviks to form their political line against both their inter-party rivals the Mensheviks (until 1912 and their partition in the Prague conference) and following the declaration of WWI against the center and the right of the old Social Democracy. In the next section, we will discuss their reasoning in extend, through the derivative works of Lenin and Bukharin on the subject.

But there was also a second reading of the dynamics of «Monopoly Capitalism». Hilferding, argues that from an economic standpoint «there are no limits to cartelization». Basis the arguments presented above the non- cartelized sectors of national economies will be eventually «annexed by them [the cartels-NS]». Under this reasoning the formation of a «general cartel» is the dominant tendency. Thus any economic contradictions are eliminated and only property relations stand between labor class (and its allies) and the bright future of socialism. Around these assertions the «center» of the international could form its own political line. This was done by Kautsky in the most articulate manner. At first he stated that social democracy should act to prevent arms race and War (Kautsky 1911¹⁵) and agitate in favor of multinational integration in what he called «United States of Europe». If war emerged because of the action of a single capitalist state it would end in a socialist revolution. Following the outburst of WWI He modified his position and argued that following the war the prevalence of «Ultra Monopoly», another name for the «United States of Europe», was economically possible (Kautsky K. 1914¹⁶). The debate on the breakdown of capitalism was thus degraded in a dispute around the inevitability of war on one hand and the emergence of Ultra Monopoly on the other. Political and geopolitical matters came to the top of the agenda since from the monopoly model both outcomes were possible.

In the real world cartels, trusts etc. have proved to be transient phenomena in the history of capitalism, a truce in the ongoing «war» of capitalist competition which persists irrespective of the size of the competing capitalist corporations. Even the oldest and strongest cartel of modern times the OPEC has been unable to control oil prices both on the upside as well as the downside although it controls a huge part of the world oil supply. The fluctuations in oil price can be explained much better by the productivity of oil wells (Marx's theory of rent) rather than the decisions of the cartel on oil production. Recent econometric studies have shown that profit rates between industry «regulating capitals» tend to become equalized on average over the course of the business cycle therefore monopoly power (expressed in persistent profit rate differentials) is not a permanent phenomenon of modern capitalism.

Leaving the money and finance theory of Hilferding to be considered together with modern revival attempts of «Finance Capital» we move to discuss the major works through which the «Monopoly Model» was incorporated in the «third international».

III Lenin – Bukharin and Monopoly Capitalism:

The SPD vote in favor of war credits was the epilogue of the 2nd International. Social Democrat revolutionaries realized they had nothing to expect from the center and the right wing of the old international so their roads parted. As result the base of the revolutionary faction moved to the only party in which it held the majority the Russian Social Democratic Labor Party. The Bolsheviks kept from the old international only the Hilferding model and

especially the convenient conclusions mentioned above. These conclusions were incorporated in their political agenda through the book by N. Bukharin «Imperialism and World Economy» (Bukharin 1915¹⁷) and the pamphlet by Lenin «Imperialism the Highest state of Capitalism-A Popular Outline» (Lenin 1916⁴). The ideas analyzed therein were included in the Bolshevik émigré party conference resolutions (Switzerland FEBR-MAR 1915). Although the work of Bukharin came out earlier we will begin our reference with Lenin because His views were the official party views.

The concluding lines of Lenin's introduction of «Imperialism and World Economy» give the outline of the new phase of the conflict inside the left at the time:

«Can one, however, deny that in the abstract a new phase of capitalism to follow imperialism, namely, a phase of ultra-imperialism [Lenin refers to Kautsky's «Ultra Monopoly»-NS], is "thinkable"? No. In the abstract one can think of such a phase. In practice, however... the development in this direction is proceeding under such stress, with such a tempo, with such contradictions, conflicts, and convulsions-not only economical, but also political, national, etc., etc.-that before a single world trust will be reached, before the respective national finance capitals will have formed a world union of "ultra-imperialism," imperialism will inevitably explode, capitalism will turn into its opposite» (Lenin - Bukharin 1915¹⁷)

Lenin does not take any distance from both readings of Hilferding mentioned above, not even from the extension of these conclusions outside national boundaries by Kautsky. The latter, suggesting that capitalism can evolve beyond the stage of Imperialism. His protest is against the economic and mainly on the political feasibility of the Ultra-Monopoly outcome. Actually, Lenin never concealed that his pamphlet was derivative work to Finance Capital. Indicative are the following words included in the abstract:

«In 1910, there appeared in Vienna the work of the Austrian Marxist, Rudolf Hilferding, *Finance Capital* (Russian edition, Moscow, 1912). In spite of the mistake the author makes on the theory of money, and in spite of a certain inclination on his part to reconcile Marxism with opportunism, this work gives a very valuable theoretical analysis of "the latest phase of capitalist development", as the subtitle runs»

This is a highly commendable reference for a rival inside the old international and specifically addressed to the part of Hilferding's argument which reduces capitalist competition to perfect competition. Actually the first chapter of Lenin's «Imperialism» is devoted to a popularized presentation of this argument where the notion of «perfect competition» is presented even more explicitly than in «Finance Capital».

«Competition becomes transformed into monopoly....This is something quite different from the old free competition between manufacturers, scattered and out of touch with one another, and producing for an unknown market»

The passive price taker neoclassical firm appears in the above extract taking decisions about output in isolation from its competitors knowing only the market price and its cost function. This is capitalist competition in Lenin's view. Therefore, what has been presented in the previous section is taken for granted as the starting point of the analysis.

Following a reference to the dominance of banks and finance capital in the era of monopoly, Lenin moves to analyze the conclusions of Hilferding and mainly the one referring to the «urgent need» for capital export from cartelized (advanced) capitalist nations to backward capitalist countries³. There he states:

«In these backward countries profits are usually high, for capital is scarce, the price of land is relatively low, wages are low, raw materials are cheap. ... The need to export capital arises from the fact that in a few countries capitalism has become “overripe” and (owing to the backward state of agriculture and the poverty of the masses) capital cannot find a field for “profitable” investment»(Lenin...)

Amazing, profit is not surplus value in monetary form but the price of capital which like any other commodity in neoclassical value theory is determined by scarcity. The need to export capital by the advanced countries is a repetition of the Hilferding argument, Lenin’s reasoning, however, holds some degree of novelty. The argument develops as follows: investment in agriculture could improve the production of necessities and absorb excess capital. But this would increase wages, a decline in the reserve army of labor or a rise in ground rent or both are implied here, therefore disproportional growth of industry in relation to agriculture in advanced economies prevails at the stage of imperialism. This suggests further that international trade takes place in unequal terms, advanced nations purchasing agricultural products and natural resources in competitive prices while selling their own products in monopoly prices. Therefore the gap between advanced and backward countries is not expected to close in the process of capitalist development. On the other hand advanced countries with a disproportionately developed industrial sector desperately need new markets and investment territory to cover excess capacity and exploit the higher rate of profit of colonial regions, as well as, tariff protection inside this region permitting to sell at monopoly prices.

The road to associate monopoly with imperialism and war ruling out the possibility of Ultra Monopoly argued by Kautsky is now wide open.

«The capitalists divide the world... And they divide it “in proportion to capital”, “in proportion to strength”, because there cannot be any other method of division under commodity production and capitalism. But strength varies with the degree of economic and political development. ...The question as to whether these changes [in power-NS] are “purely” economic or non-economic (e.g., military) is a secondary one, which cannot in the least affect fundamental views on the latest epoch of capitalism.... the form of the struggle and agreements (today peaceful, tomorrow warlike, the next day warlike again) for the question of the substance of the struggle and agreements between capitalist associations is to sink to the role of a sophist [he refers to Kautsky-NS]»

Since competition has ceased, the struggle is settled «in proportion to strength». Whether this strength comes from the magnitude of financial capital and monopoly power or the power of canons is a «secondary matter», because these structures are correlated. Instead of considering competition in capitalism as war (in the context of which actual warfare can certainly take place), Lenin assumes that war replaces capitalist competition and any «agreement» between capitalists in this context is a transient truce, because development is «uneven» both among the strong, as well as, between the strong and the weak. It varies «with the degree of economic and political development», in other words, with the degree of monopolization of each national economy. As capital concentration proceeds inside national borders and monopoly combinations emerge fresh capital accumulates in bank vaults seeking employment outside the country, any fragile balance reached thus far is shaken and the «drums of war» are heard again.

Seeking new markets and investment territory is a main counteracting tendency to the decline of the rate of profit as presented in Capital VIII (Marx 1894¹⁸) and therefore persistently implemented by capitalists at all times and with every mean. Imperialism is thus an existing although not distinctive aspect of capitalism, since it appears in earlier modes of production. War on the other hand appears in all class societies due to breakdown between forces of production and social relations. In the context of the capitalist mode of production such breakdown incurs when, due to decline in the rate of profit, the process of production

does not reflect in the process of valorization (Grossman 1929⁷), in other words in a depression. Crises are times when war comes to the top of the agenda as a possible resolution, WWII being a relevant historical example. Lenin came to the need to apply Neoclassical Monopoly theory as an explanation of imperialism because he had failed to grasp the underlying argument in Marx as noted in the first section and because monopoly theory could provide a clear argument justifying immediate revolutionary action in backward countries. But the partition from Marxist political economy was not without consequence. The substitution of the social relations of capitalist production by monopoly power signaled the partition of the revolutionary left with the work class movement especially in advanced countries. The immanent necessity of socialism was reduced to the war inclined nature of the «highest state of capitalism» and/or the liberation of backward countries, colonies and semi-colonies from imperialist exploitation.

Liberation from imperialist exploitation, which actually meant liberation from a vicious cycle of retrogression, was used to justify a shift of the revolutionary terrain from advanced capitalist countries to backward exploited nations. Diverting from Hilferding who suggests that growth is retarded because monopoly curtails capacity, Lenin suggests with reference to Britain and in a perfectly neoclassical fashion, that monopoly is not keen to technical change because the monopolist feels secure from his dominant position. This tendency is reinforced by the emergence of a whole class of financial capitalists acting as passive renters unable «to influence socio-economic conditions». The same people who few lines above were colluding with governments, fueling wars, exploiting colonies, dividing the world, just to employ their excess capital are now appearing as redundant users of financial capital exploiting «debtor states». Here Lenin inserts his second point: the redundant capitalist class corrupts a part of the national working class to preserve its dominance. The working class is split between a «labor aristocracy» enjoying privileges from belonging to the exploiting nation and «proletariat proper». This privileged position is the material basis for the attraction of this part of the working class by the center and the right faction of the old international. Lenin thus argues that the split of the 2nd international was a political reflection of social developments in the working class at the «stage of imperialism». The monopoly model and its interpretation by Lenin, acted again in a misleading fashion, the beginning of the fall of Britain as the leading capitalist nation was conceived as redundancy of advanced capitalism. Moreover politically experienced work class forces were handed over to the new social democracy as labor aristocracy. And when capitalism broke down in the 1930's, an event ruled out by monopoly theory, these forces turned their back to the left and followed the extreme right with devastating consequences.

Although most of the views initially presented by Bukharin are incorporated by Lenin and have been elaborated above, the former presents also a theory of «state capitalism» where the state, in the stage of imperialism, appears as a collective capitalist. This idea received criticism by Lenin and also played part in the formation of the right wing of the Bolshevik party in the 1920's, thus it needs specific mention. The argument is wrapped up in the following extract:

«A self-sufficient national state, and an economic unit limitlessly expending its great power until it becomes a world kingdom - a world-wide empire - such is the ideal built up by finance capital.

«With a steady and clear eye does it [finance capital] view the Babylonian confusion of peoples, and above all of them it sees its own nation. The latter is real; it lives in a powerful state, which keeps on increasing its power and grandeur, and which devotes all its forces to making them greater. In this way, the interests of the individual are subjugated to the interests of the whole - a condition without which no social ideology can live; a nation and a state that are hostile to the people are tied into one whole, and the national idea, as a motive power, is subjugated to politics. The class conflicts have disappeared; they have been annihilated, absorbed as they are in serving the interests of the whole. In place of the dangerous class

struggle, fraught for the owners with unknown consequences, there appear the general actions of the nation which is united by one aim—the striving for national grandeur»

Thus the interests of finance capital acquire a grandiose ideological formulation; every effort is made to inculcate it into the mass of workers, for, as a German imperialist has correctly remarked from his point of view: "We must gain power not only over the legs of the soldiers, but also over their minds and hearts."» (Bukharin ch. 8¹⁷)

Most probably confused by the application of a command war economy, from the conflicting sides of WWI, Bukharin arrived to the conclusion that the national «general cartel» suggested by Hilferding had been reached by 1915 and this fact had effected, as argued in the extract from «Finance Capital» cited, a change in the nature of capitalist state. Class conflict had disappeared annihilated in the «ideological formulation» of «national grandeur». Contradictions were transferred to the world market emerging from the «world-wide basis» of social economy and the national acquisition of social value. The state, in its capacity as «collective capitalist», effects through war the resolution of this contradiction.

Lenin did not criticize Bukharin openly, but contested his view in «Imperialism», most probably becoming aware of the implications of Bukharin's position during the émigré conference of 1915. He argued that the disproportional sector development, of national economy, (especially between industry and agriculture) is inherent in imperialism. Thus the anarchic character of national capitalist development does not vanish, effecting shifts in power relations and the prevalence of war. His appeal to the parasitical nature of imperialism can be viewed as an extension of this argument since it reinforces the tendency towards power shifts between imperialist nations. These theoretical differences explain also the absence of any express reference to Bukharin's book in Lenin's pamphlet.

The Bolsheviks were able to reach a compromise on their differences in the émigré conference resolution, placing the powerful idea of transforming the imperialist war to civil war as their primary duty. This, Marxist notion would guide them in the years until October 1917 and is mainly responsible for their success.

However, by 1916, the adoption of the Hilferding model had turned the discussion on the inherently contradictory dynamics of capitalism to a superficial debate on Monopoly, Ultra Monopoly, Organized State Capitalism, Decay and Labor Aristocracy. These trivial assertions were applied, at the level of national politics to justify, the revolutionary destruction of the capitalist state for the Bolsheviks, or the apprehension of this state of «organized capitalism» and its rectification in favor of the work class by the new social democrats. At the level of international politics, a new era of imperialist wars and revolutions stood in front of the world labor movement for the Bolsheviks, whereas, for the new social democrats, peacekeeping multinational integrations like Kautsky's «United States of Europe» should be pursued.

Both factions of the old international soon experienced political success. The Bolsheviks made world history with the October 1917 insurrection. The USPD⁴ managed to prevail from the events following the «Kiel up rise», which led to the removal of the Kaiser and formed a government with the «Majority Social Democrats» in November 1918. However, the above mentioned, superficial notions continued to dominate the theoretical debates and political practice of both factions.

For the USPD the idea of taking over an «organized capitalism» state was proven naïve even before the formation of the government. They were called to govern a bankrupt state where production had deteriorated because of the war and where huge war compensations could only be paid out of excessive quantitative easing. Following some pro labor reforms which served only to ease discontent among the population their collision

⁴ The acronym stands for United Social Democrats. This party was formed by old SPD members who left the SPD during the war. USPD included the major figures referred in this paper (Kautsky, Bernstein, Hilferding) as well the revolutionary faction «Spartacus League» led by Rosa Luxemburg and Karl Liebknecht.

speedily deteriorated, through a sequence of splits and betrayals ending with their marginalization in the January 1919 election. The tragic victims of their policy were: first the revolutionary faction Spartacus, then Germany and the whole world in the end.

But also the politically aware Bolsheviks did not escape the gap in their economic understanding while dealing with the great challenges facing their revolution. The theoretical differences, we are able to trace, as early as 1915 evolved in a fierce superficial political struggle throughout the second decade of the 20th century from which the faction caring the least about theory and the most about clinging to power reasonably prevailed. To these theoretical queries we will now turn.

IV. Trotsky – Kondratiev and the Breakdown of world capitalism:

The third conference of the Comintern took place in Moscow in 1921, the mood was far from being enthusiastic. Although, the Bolsheviks had practically prevailed in the civil war since 1920 the economic conditions in revolutionary Russia were devastating. After seven consecutive years of war and four years of war economy (war communism) output had declined by about 80%, compared to prewar levels, industry was mostly idle because of oil and coal crisis, high unemployment, famine and disease were present especially in the cities leading half of their population to leave for rural areas in search of food and jobs. Political unrest emerged, quite reasonably, reaching a climax in the Kronstadt uprising (1921) which was brutally put down by the Red Army. The Bolshevik party responded to the situation by abandoning «war communism», reestablishing market relations and private enterprise under the bumper sticker of «state capitalism» (10th Congress 1921). The new policy has been recorded in history with the acronym N.E.P (New Economic Policy) to which we will refer below in some extent.

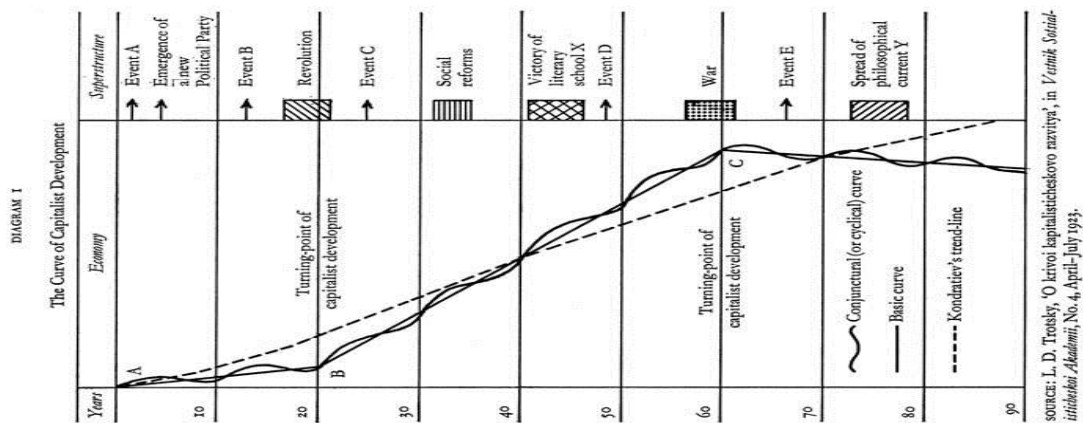
In the international level, the revolutionary tide of 1919, which embraced almost all European countries, was in a setback. Although economic growth which followed the war by 1920 had turned to a world capitalism crisis, the defeat of the revolution in Germany and Hungary, the defeat of the red army in Warsaw and the stabilization of the post war political scene had raised skepticism amid the parties of the Comintern. The idea that the Russian revolution would become the sparkle of world revolution was not held with the same conviction as a year earlier. The Bolsheviks were uncertain of the ability of the European parties to lead revolution to victory and the «brother parties» were skeptical of the policy shift of the Bolsheviks (NEP), the later seeking restoration of state and economic relations with the capitalist world i.e. the national adversaries of the «brother parties». In this atmosphere Trotsky⁵ delivered the «Report on the World Economic Crisis and the New Tasks of the Communist International» (Trotsky & Vega 1921¹⁹) to the third conference.

At first, showing insight missing from all of his contemporaries, Trotsky suggested that equilibrium in capitalism is not a static phenomenon but a turbulent process where balance is reached through the succession of boom and crisis periods. However, like Hilferding, he limits this process to the ten year cycle, suggesting that this is the inherent economic crisis in capitalism resulting from disproportional growth between: sector I (means of production), sector II (means of consumption). Then he shows further insight by suggesting that these short term fluctuations take place in the context of a «long wave» of capitalist development. But at this point he loses perceptiveness and suggests that the downturn of the «long wave» resulted from a disruption in capitalist «inter-state equilibrium» which was no

⁵ Leo Trotsky was a late and important arrival in the Bolshevik camp. His enlistment was associated with Lenin's «April Theses» (Lenin 1917) where Trotsky saw the adoption of his theory of «Permanent Revolution» (Trotsky 1902). In the light of unequal development between capitalist nations, the bourgeoisie of backward countries is unable to play its historical mission and any democratic revolution has to be performed by the labor class and transformed to a proletarian revolution. Lenin's appeal: «all power to the soviets», following the overthrow of the tsar, was the invitation signal for Trotsky to join the Bolshevik party, soon becoming a prominent figure for his part in the days of October and the civil war which followed.

other than WWI. The war, argues Trotsky, disrupted the proportionality between sectors I and II because war needs pushed all major war powers to produce means of production instead of means of consumption. This in turn disrupted the class equilibrium between «centralized unions» and «centralized industrial capital» and equilibrium between capitalist states in the sense that power shifted from the traditional European powers, especially Britain, to the United States. Capitalism is unable to restore a positive long term development trend, because the prolonged duration of WWI «destroyed Europe’s economic apparatus», which means also reduced demand from Europe for American products in the post war era and thus growth retardation and crisis for the United States as well. The overall picture of capitalist dynamics are summarized in the following extract and chart two the later appearing in a 1923 article:

«It is quite obvious that America will have to suffer curtailment since the European war market is gone beyond recall. On the other hand, Europe will likewise have to level herself out in accordance with the most backward, i.e., the most ruined areas and branches of industry. This will mean an economic leveling out in reverse, and, consequently, a prolonged crisis: in some branches of economy and some countries – stagnation; in others – a weak development. Cyclical fluctuations will continue to take place but, in general, the curve of capitalist development will slope not upwards but downwards» (Trotsky 1921)



The association of the transition from growth to depression with war is an application of the Hilferding model, where Trotsky’s extends Lenin’s argument in Imperialism. This is indicated in his 1923 article:

«As regards the large segments of the capitalist curve of development (fifty years) which Professor Kondratiev incautiously proposes to designate also as cycles, their character and duration are determined not by the internal interplay of capitalist forces but by those external conditions through whose channel capitalist development flows. The acquisition by capitalism of new countries and continents, the discovery of new natural resources, and, in the wake of these, such major facts of “superstructural” order as wars and revolutions, determine the character and the replacement of ascending, stagnating or declining epochs of capitalist development».

Following Lenin, who argues that capitalist growth leads to monopolization, which triggers capital export, power shifts, war and revolution, Trotsky suggests, that these «facts of superstructural order... determine the ...ascending, stagnating or declining epochs of capitalist development». In other words WWI marked the beginning of a long period of decline for world capitalism. On these grounds He criticizes N. Kondratiev, a prominent Russian economist and statistician of the time, appointed by the Bolsheviks head of the Moscow «Institute of Conjuncture» in 1920, for attempting to explain the long cycle in economic terms.

In the aftermath of the third conference of the Comintern where the prospects of «world revolution» were associated with a declining trend in capitalist development, Kondratiev presented a paper (Kondratiev 1922) where using actual data he showed that long term cycles (long waves) were recurrent phenomena in the history of capitalism the beginning of the first long cycle dated as back as 1790. Although, Kondratiev in subsequent work (Kondratiev 1926) expressly stated that the crisis of 1920 marked a period of long-term decline in world capitalism, as suggested also by Trotsky for different reasons, what was the need for Trotsky to oppose him strongly? In other words why was it so important for a long wave to depend on superstructural random occurrences rather than being the result of the inherent tendency of the rate of profit to fall, which was what Kondratiev was actually observing (Mandel 1980).

The main reason was that the Kondratiev findings implied that capitalism was capable of restoring growth following a declining period. Trotsky thought that by applying the idea of an irreversible downturn, at the absence of positive random events in favor of world capitalism, he was supporting the notion that WWI marked the beginning of the period of revolution first in Europe and then around the globe. This was, in His view, a prerequisite for the prevalence of socialism and the survival of the Russian revolution itself given the backwardness of Russia and imperialist surrounding of the soviet state. Although, He was obviously correct in the last assertion, the application of the Monopoly model as basis of the argument led himself and part of the Comintern to a witch hunt on an immanent new war emerging from British, U.S. rivalry. When this war did not come in 1924, as anticipated by some Comintern members (not Trotsky), but only in 1939, His inter-party rivals were given ample time to attack the core of his argument and establish their power on Russian national development.

V. The Bolshevik Party struggle 1923 – 1928 and the Third Period of the Comintern:

In the 10th congress of the Russian communist party Lenin made his appeal for the application of the «N.E.P.» on two grounds: 1) that the revolution was «marking time» in anticipation of the insurrection of the European proletariat, 2) the application of «state capitalism» in the transition from capitalism to socialism.

The first part of the argument was commonplace in the party (at the time), Trotsky analyzed it further making it one of the cornerstones of the «left opposition». The underlying assertion was that Russia could not overcome its backwardness on its own. Unequal development is inherent in capitalism thus in backward countries only revolution in the west can supplement it with «dual development» through technological infusion coming from the European proletariat. In the meantime the revolution should make the best of this «breathing spell». In this context the NEP was designed to establish proportionality between the industrial and agrarian sector, in other words market relations were restored to regenerate economic relations between city and countryside. Disproportional sectoral development was the inherent economic contradiction of the capitalist system for all the theorists of the old and new international, especially Lenin who had argued that the anarchic character of capitalist production does not vanish in «Imperialism». In the case of Russia this implied rapid industrialization, since the agrarian sector was immensely greater. To avoid capitalist restoration, industrialization should be undertaken by the state the latter organizing industrial production through central planning.

The second appeal is an extension of the Bukharin argument, stated in section (III) War had converted «Monopoly Capitalism» to «state capitalism» and «state capitalism» is «a step towards the regulation of economic life as a whole, in accordance with a certain general plan, a step towards the economy of national labor and towards the prevention of its senseless wastage by capitalism» (Lenin 1917). This second appeal together with Lenin's conference statement that the NEP would have to go on for decades (Lenin's 10th conference address) served as the basis of the right wing faction (Bukharin, Rykov). The «right» took Lenin's position literally i.e. first we build state capitalism and then we move to socialism. These are the inherent dynamics of capitalist economies but also the «stages of the socialist revolution».

Trotsky in his theory of «permanent revolution» underestimated the socialist potentialities of the peasantry and this led him to his flawed conception that socialist Russia will come following an up rise in the West (Bukharin 1924). For the world agenda, the «right» preached, that economic downturn of world capitalism, as shown in Trotsky's chart, is by no means irreversible. Capitalism and especially state capitalism was perfectly capable of reversing economic decline (Bukharin 1927), it was the contradictions in the world arena, originally argued by Bukharin in his 1915 book, which will bring war and the end of capitalism. The bottom-line was that socialism could materialize in Russia alone but at the «peasants pace».

These were the actual conflicting lines in the Bolshevik party practically in place since 1921, although their views were concretized in various documents throughout the inter-party struggle. Both were equally superficial, the first put the fate of the revolution in the hands of the war inclined nature of capitalism and the second in ideations that small, middle, large peasants and entrepreneurs will be annexed into socialism in the same fashion that monopoly annexes non cartelized sectors in Hilferding.

Between them rested a mass of party middle and high officials, public servants, the army etc. who were prepared to discuss any course of action that would not compromise the Bolshevik rule which they associated with their own privileges. The left opposition posed a danger for them because it placed their fate in the hands of world revolution and the right an equal danger placing their fate in the hands of yesterday enemies like the kulaks, or hostile liberal elements like the “nepmen”. Stalin with articulate and well-timed moves applied, in the end, the “secure” parts of both lines: first he took «socialism in one country» from the right and afterwards central planning from the left. When the «socialist inclined» peasants did not enter collectivization willingly, he «solved» the problem in his own way.

Evaluating the inter-party struggle some years following its end (1928), Trotsky suggested that the non-revolutionary circumstances of the mid 20's were the main reason for the prevalence of Stalin's center. This position certainly has merit but cannot serve as an explanation, the left opposition burned its case not in 1928, when it was politically marginalized, but much earlier (1923) when it was preaching international revolution to a starving population which was trying to obtain mere means of subsistence. It was the superficiality of this assertion, emerging from the conviction of an imminent new war, which gave the upper hand of “political realism” to the center and the right both inside party but also in the population.

Superficiality of a different kind was the reason of the political defeat of the right in 1928. By 1928 the N.E.P had exhausted its potential, although agricultural production had reached or exceeded prewar levels since 1926 the continuation of this policy implied an agrarian economy running current account deficits in order to finance industrialization, something which implied further severe compromises to international capital. While the right was talking «thin air» about the gradual annexation of Kulaks to socialism, the center having in mind the uncompromised Bolshevik rule understood that the N.E.P. had to be abandoned. Clinging on the path breaking work of Gregory Feldman on economic development, which overruled the neoclassical conviction that each country should develop relying on the «production factor» in abundance and suggesting alternatively growth through social savings as means to industrialization the “center” turned” towards central planning and rapid industrialization introducing a period of strong growth which lasted for next generation. Growth rates for soviet Russia exceeded those of the capitalist world and the economic supremacy of planned “socialism” over market capitalism became the word of the day.

Besides the consequences of this bitter struggle on soviet Russia and the local communist party, the 1920's had even more tragic consequences for European and world politics in the years to come. In 1928 when Bukharin was still leading the Comintern and the general conviction was that world capitalism had recovered from postwar crises the organization introduced a political line which has gone down to history as the “third period”. Since socialism could materialize in separate countries national revolutionary policies were designed. Based on the law of “unequal development”, countries were divided to backward, middle development and developed countries. Revolution, which was considered as the norm at the “age of imperialism”, was assigned a different character in each group of countries,

which in turn justified different political and social alliances. In backward countries a general alliance including the capitalist class was justified to remove feudal laws and institutions and bring about a nation state. On these grounds the Chinese communists were instructed to abandon their own political objectives and place their forces under the command of the Comintern in the struggle against the Manchu dynasty, an event which led to their slaughter by Chan Kai Sek following his prevalence. In countries of middle development the revolution would develop from the initial democratic stage, which would serve as an action of national independence from imperialist exploitation, to the socialist stage. National bourgeoisie was excluded from the revolutionary alliance, in this group of countries, since it was considered totally dependent to imperialist interests. Finally, in developed countries socialist revolution was the immediate task and “proletariat proper” as opposed to “labor aristocracy” the heart of revolutionary action, although social alliances with exploited social groups could be justified. However no political alliances were appropriate, conservative parties were the enemy and social democrats were only spreading confusion in the revolutionary movement.

Months following the publication of the “third period” policies capitalism broke down. The “great depression” was felt more strongly in developed capitalist nations, first in the U.S., where it was triggered and then in Europe. Although the Comintern soon acknowledged this fact it made no modifications in its policies, on the contrary they simply considered the event as justification of immediate revolutionary action using the immunity of the Soviet Union to the crisis as an additional argument in that direction. Crisis was not considered as the decisive revolutionary spark for the parties of the Comintern, revolution was present-day task because of the contradictions in the era of imperialism as presented in Lenin’s “Imperialism”. Paying no attention to the political circumstances in Europe, especially in Germany which was the most prominent revolutionary terrain, no intermediate political program to face the devastation of the crisis was initiated and no political alliances were pursued. The goal of this sectarian policy was to undermine the SPD, deprive it from its relation with the labor class and the labor movement, in the same fashion that the Bolsheviks were attacking the Cadets and the Mensheviks in the days between the removal of the Tsar and the October revolution. But circumstances were dramatically different from those of revolutionary Russia, people were in desperate need for solutions from the devastation of the crisis and what they were given instead was a general condemnation of capitalism and its political representatives. At the same time the SPD, governing party at the time, was put under no actual political pressure since this policy involved no political and economic policy alternatives but only extremely hostile political language epitomized in the word “social-fascists” used by the German communist party for the SPD. The results were the exact opposite than those anticipated for the communists, Ebert social democrats, who understood their political usefulness in preventing the communists from coming to power, found the perfect excuse to incriminate any left critique to their policies as coming from the Bolsheviks and rule the party unchallenged.

The inability of both social democrats and communists to forward any persuasive alternative to the crisis either at the level of the government or the labor movement led to the prevalence of an extremist right wing party which used affiliations with the capitalist class to provide jobs for its members, distribute food to the starving as well as the fear of communism to build alliances and tolerance from the liberals and the social democrats. What followed is well known.

Irrespective of the political environment of the time the understanding of the crisis by both main currents of the left certainly played an important part in the outcome. For the SPD the crisis was simply an unfortunate random event since capitalism was understood as an ever growing system for all factions of the party. As quoted by Grossman (Grossman 1929⁶), Hilferding spent most of his 1928 conference speech to convince the conference that no “breakdown theory” was implied in his writings. Therefore any resolution was understood only inside the capitalist mode of production. For the Bolshevik faction(s) which prevailed from the inter-party struggle the crisis was at best a severe ten year cycle which would distort

inter-imperialist state balances triggering a destructive general war that would mark the end of capitalism. The center understood this position most cynically following a line of non-intervention for the greatest part of the 1930's which rested on the conviction that the imperialist war would weaken all major imperialist powers paving the way for the socialist revolution. It was only for the brief period between 1933 and the Molotov-Ribbentrop agreement that the Comintern under Georgy Dimitroff would intervene decisively in European politics through the "popular front" line which succeeded both in Spain and France. But it was already too late fascism was already well established, the left lost the Spanish civil war fighting against the concerted forces of fascist Europe who supported Franco and France collapsed at the first stages of WWII.

Nevertheless the stage argument, presented in the versions or applications of the Hilferding model presented so far, outlived these tragic events and remained an integral part of soviet politics and western Marxist literature through the works of Paul Baran and Paul Sweezy throughout the 20th century. But most astonishingly the stage argument is attempting a comeback in modern heterodox literature as we elaborate below.

VI. The Modern Return:

Although the Soviet Union is history for the last twenty years and the labor movement has been weak for the past generation, capitalism entered a depression in 2007, the first in the new century, proving the systemic inherent tendency to produce long waves as a recurring pattern in its development.

The outburst of the crisis was preceded by an upturn which commenced around 1980 following the previous depression of the 70's, intervened by two major recessions in 1990 and the millennium. Triggering the upturn was the severe deregulation of the labor market and the demolition of the postwar welfare state, this, stabilized the rate of profit which was declining during the preceding decades. However, the rate of profit did not rise to support growth and for this reason, labor market deregulation was coupled by strong financial deregulation which, together with low central bank intervention rates, depressed interest rates and boosted the «rate of profit of enterprise» (rate of profit less interest rate). Growth was restored, but deregulated finance markets together with low debt service costs and «financial innovation», lead to an unprecedented accumulation of debt and immense growth of the financial sector accompanied by modest growth of the corporate sector. This phenomenon is referred to as «financialization of capital» (Stravelakis 2012²⁰). Disregarding the rate of profit factor in this process a good deal of heterodox economists have suggested that «financialization» has implemented a qualitative change in the structure and dynamics of capitalist economies in the same fashion Hilferding suggested that the appearance of centralized banks, cartels and trusts, following the depression of 1870-1890, had converted the nature of 20th century capitalism.

The application of Hilferding's methodological example is either direct, i.e. «Finance Capital» was the first attempt to explain the actualities of a new financial capitalism (Lapavistas 2009¹, Sweezy 1997²), or indirect in the sense that every long cycle involves prevalence and death of a «capitalist institutional structure» (Kotz 2008²¹), neoliberal financialized capitalism being the «structure» in crisis. We will restrain ourselves to the first category of arguments since we wish to explore the implications Hilferding's revival.

The obvious question is: what insights in monetary theory and finance are included in «Finance Capital» to facilitate our understanding of the current crisis? Let us begin with the rate of interest. In chapter 6 following a passage of supreme novelty where, in contrast to any known economist, Hilferding suggests that the demand for circulating medium drains the gold reserve triggering a rise of central Bank discount rate, which in turn boosts market interest rates during economic expansion, he abandons any analytical effort and reaches the following conclusion:

«In a developed capitalist system, the rate of interest is fairly stable, while the rate of profit declines, and in consequence the share of interest in the total profit increases to some extent at

the expense of entrepreneurial profit. In other words, the share of rentiers grows at the expense of productive capitalists, a phenomenon which does indeed contradict the dogma of the falling interest rate, but nevertheless accords with the facts. It is also a cause of the growing influence and importance of interest-bearing capital, that is to say, of the banks, and one of the main levers for effecting the transformation of capital into finance capital» (Hilferding 1910 Ch6)

Remarking, in passing, that in the period preceding the current crisis the rate of interest declined from 20% in 1980 to around 2% in 2007, we take note of the basic conclusions: 1) the rate of interest is relatively stable, 2) that this stability relative to the declining rate of profit brings about the growing influence of Banks and the prevalence of «finance capital».

But what is «finance capital»? It is the fusion of industrial and financial capital through the holding of ownership stakes by Banks in industrial joint stock companies. However, given the stability of the rate of interest and the declining rate of profit assumption, Banks have no reason to hold stakes in industrial companies while appropriating through interest an increasing portion of their profits. It is at this point that the second part of Hilferding's argument, discussed above, comes into play. With capital concentration, the alleged prevalence of monopoly and the consequent reversal of profit rates, interest earnings accumulated by Banks during the competitive era find their way into industry.

Noting, again in passing, the remark of Kotz that «neoliberal capitalism» is marked by «large corporations with *unrestrained competition* [emphasis added – NS] » (Kotz 2008²¹), we move to the next question. How do bonds and shares qualify as compared to fixed and circulating capital advanced? They are claims on future revenue discounted against a required rate of return, a «fictitious capital». This is roughly the position in Marx as well, but Hilferding has made an additional assumption that the required rate of return (in his case the rate of interest) is «fairly stable». In the Hilferding world the rate of interest is the minimum rate of profit (the rate of profit towards which the non-cartelized sector is pushed by monopoly) below which production stops. Which valuation model applies in this world? Of course the family of dividend discount, discounted cash flows (DCF) or discounted earnings models where, because perfect competition and perfect markets are assumed, the required rate of return remains in line with the rate of interest which is the neoclassical uniform risk free rate of profit.

In this imaginary world Banks have a strong incentive to take equity stakes in monopoly sectors thereby realizing a «promoters' profit», approximating the difference between nominal and market equity value, which exceeds the rate of interest they would otherwise earn. Industrial capitalists, on the other hand, are happy to give away a part of their capital gain since their «capital intensive concerns» cannot be financed otherwise due to the great amount needed for their establishment. Thus monopolization on the one hand and the «fairly stable» rate of interest on the other bring both industry and finance in the hands of a «financial oligarchy» and transforms capitalist relations as suggested by Lenin in Imperialism. All this in appearance because in practice we have a theory of neoclassical monopoly coupled by elements of «modern investment theory».

Is there any relevance in these assertions regarding the operation of capital markets? The almost unanimous answer is no. It was 1983 when the mainstream economist Robert Shiller (Shiller 1983²²) showed that profit or dividend variations cannot explain stock price volatility. This implied that the required rate of return is not stable but highly variable. Banks and financial capitalists are constantly adjusting their equity holdings to match the incremental rate of profit of the corporate sector (Shaikh 1994²³) which because of capitalist competition is a highly volatile measure. This is why financial capitalists have proved quite reluctant to hold controlling stakes in industry for long.

The almost stable «promoters' profit» implied by Hilferding has further implications. Financial crises are very unlikely in His world, since «monopoly combinations» can keep most of their activity in place during a recession and utilize accumulated reserves. Because of

this, corporations, by substituting bank credit with commercial credit, release funds enabling banks to keep credit flowing (Hilferding ch 20).

Although Hilferding's framework is most inadequate in explaining crisis especially financial crisis, heterodox economists found great insight in «promoters profit» for elucidating «financialization» and the present depression. Financialization emerged from a «Sweezy surplus» (a version of monopoly surplus), accumulated during the golden years of the 60s' which ended in bank vaults during the crisis of the 70s'. Large corporations became increasingly independent of corporate bank credit because of accumulated reserves and the ability to assemble leverage through bonds and commercial paper issues. In this context Banks undertook a restructuring in their activities focusing in revenue from underwriting corporate stock and bond issues as well as financing consumer spending (mortgages, consumer durables etc.). This way finance fused into the whole society creating a new set of economic and social relations.

But how crisis emerged in this context? The advocates of this theory (Lapavistas 2009¹) suggest that because corporate investment and public debt issues decelerated in all major capitalist countries (Why?), banks, in search of other sources of profits, implemented financial innovation, enabling them to dispose mortgages through securitized titles (mortgage backed securities) acquiring fresh funds allocated in additional consumer credit of lower quality. Credit inflation drove prices up creating the U.S. «housing bubble». When an increased amount of mortgagees stopped performing on their loans, because of the limit posed by wages, the bubble burst. However, this is not a crisis theory it is an account of events which led to the collapse of the sub-prime market in the U.S. triggering the current depression.

To establish an underlying crisis theory we have to identify the cause of corporate investment slowdown. Moreover, since the proponents of these theories insist in dissociating the present crisis from profitability we need a theory of dissociation of profitability from investment in other to identify the independent dynamics of financialization which led to it. The most obvious explanation, given the background provided, is that increased monopolization in the 70s led to an increasing surplus, in the sense of accumulated neoclassical monopoly economic profit, facing insufficient demand (Sweezy 1997²). This is the under consumption version of the Hilferding argument initially advanced by Luxemburg and Kautsky, subsequently elaborated by Kalecki and mainly by Baran and Sweezy. Banks employed the economic surplus creating adequate demand, through consumer credit, to close the «demand gap» which undermines economic growth in capitalism. Besides the obvious criticism i.e. profit and not consumption, is the driver of capitalist production, financialization in this case is not the cause of the crisis. The cause lies in the corporate sector, like all under consumption theories Sweezy suggests that capitalism is not capable of sustaining growth, growth comes outside the production process, therefore growing finance is not an impediment to growth, on the contrary «[growth] has been almost entirely due to the financial explosion» (Magdoff and Sweezy 1987²⁴).

Under the above reasoning, financialization does not constitute a new stage of capitalism it is the result of the inherently stagnant nature of «under consumption monopoly capitalism». To support a theory of crisis resulting from financialization the causality must be reversed, high financial returns reduced funds destined for corporate investment and /or higher investments requiring greater financial payments are responsible for investment slowdown In other words although the profit rate is sufficiently high to sustain growth unproductive financial investments place a burden. Sociological features suggesting the prevalence of a class of renters and “usurers” of capital, like those presented by Lenin in “Imperialism”, serve now as explanation of the disproportional growth of finance which is prone in creating bubbles the latter serving as the cause of crisis. These developments, in turn, have implemented a shift of power between “agents”, unproductive usurers become dominant associated and supported by the state, central banks etc., thereby persistently undermining growth and increasing the probability of financial crisis episodes.

Both versions of the argument are directly related with the ideas presented in Hilferding and Lenin which expressly rely on the idea that disproportional growth between sectors is the cause of crisis in capitalism. The only difference is that crisis was understood back then as the ten year cycle and now as a sequence of highly probable financial crisis episodes. If proportionality between sectors, in our case production and finance, could be restored through state intervention then capitalism could sustain growth to eternity (Husson 2008²⁵).

The absence of a depression theory inherent in the mode of production haunts the policy suggestions forwarded by this set of theories in proximity to the debates of the first decades of the previous century. Since a financially regulated capitalism would be immune against crisis, bank regulation is the answer one could argue. But it can be argued also that the dominance of finance capital over states, governments and central banks is so great that this attempt is a fallacy similar to Kautsky's "Ultra Monopoly". At a time when billions all-over the globe are facing the consequences of a brutal class policy designed to restore the rate of profit to growth sustainable levels, a process which seems to move in slow pace, undermined by severe contradictions relating to the sustainability of the financial system, heterodox economics have surrendered the economic policy agenda to mainstream theorists. It is neoclassical economists supporting the fiscal austerity agenda and Keynesian or neo Keynesian economists suggesting that "austerity policies" are in fact responsible for the duration of the crisis who monopolize economic policy debates. Heterodox economists have restrained themselves in "witch hunt" over whether the present crisis will mark the end of financialized capitalism or whether we are witnessing the first major crisis at the era of financialization.

VII Summary and Conclusions:

Looking back in history through the "eyes" of the dominant political economy model is by no means a complete historical analysis it can serve however as an analytical tool identifying the rationale underlying practices, policies and actions in the minds of the "leading actors" which, at certain times, play important part in the historical outcome.

The Hilferding model is by far the leading candidate to hold the term "dominant model" when it comes down to the left. Nevertheless contrary to mainstream economic models which appear as solution during crises, the monopoly model becomes completely irrelevant at depression times, that is at times when the left is expected to dominate and the reason is that it does not include an inherent depression theory. The ability of capitalism to restore growth following depression episodes was viewed by Hilferding as the ability of capitalism to resolve its inherent contradictions and this last result was analytically argued by applying to the neoclassical theory of competition and elements of "modern investment theory" as shown above. The anarchy of production remained the only crisis creating element leading to disproportional growth between sectors or countries in a world dominated by power relations as argued by Lenin in "Imperialism".

We saw the part played by this understanding of the dynamics of capitalism in political struggles in the left during the first three decades of the previous century, reaching a climax during the "third period" of the Comintern. At those critical times the inability of all factions of the left to understand the cause of the "great depression", in other words the inherently contradictory dynamics of growth under capitalism, deprived them of a persuasive economic program that could meet people's needs and even pave the way for overcoming capitalism. This together with the sectarian policy of the communist parties in advanced capitalist nations and the commitment of the leaders of social democracy to the system led to the prevalence of the extreme right with devastating consequences.

For a good part of heterodox literature these historical events have not served as an example. With the same ease that left theorists at the beginning of the century explained crisis from the disproportional growth of department I relative to department II they attempt to explain the present depression from the disproportional growth of the financial sector relative to the production sector. In other words financialization is understood independently from the

contradictions of profit motivated growth. This way a good part of heterodox literature concludes that proportionality can be restored through state regulation, which means in turn unimpeded growth under capitalism. Meantime neoclassical and neo-Keynesian economists are left unchallenged to discuss over the economic policy agenda while billions all-over the globe are facing the consequences.

Marxist economics have made great progress in identifying and developing the argument in Marx, the work of Grossman in identifying Marx's crisis theory, the presentation of the argument underlying Marx's *Capital* by Rosdolsky and numerous contemporary analytical and empirical works, which cannot be presented in this context for spatial reasons, have appeared over the years. In this line of thought profit motivated growth and its inherent contradictions are central in the analysis. I have argued elsewhere (Stravelakis 2012) that financialization can be elaborated in the context of this argument. Viewed from this perspective the current crisis analytically classifies as a depression something which is confirmed from its duration and consequences. This understanding reveals also the nature of the policies implemented and can serve as starting point in promoting policy alternatives so desperately needed in our times.

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