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Rosa Luxemburg's 'Accumulation of Capital':

New Perspectives on Capitalist Development and US Hegemony

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Abstract

The article begins with a critique of a variety of Marxist theories on capitalist development and US hegemony. These theories either see capitalism in stagnation and US hegemony in decline since the 1970s or understand neoliberalism as the American way to permanent hegemony. The former fail to explain accumulation during the era of neoliberalism, the latter can't explain the current crisis of neoliberal capitalism. As an alternative a Luxemburgian approach is suggested, which proceeds in two steps. One, core concepts of Rosa Luxemburg's 'Accumulation of Capital' will be introduced and the Marxist debate about her work reviewed. This is necessary because of the absence of any tradition of Luxemburgian political economy. Second, from a Luxemburgian perspective post-war capitalism developed in two phases, each of which was possible because class-struggles and international

conflicts had opened non-capitalist environments for capitalist penetration. The first phase gave rise to consumer capitalism and neo-colonialism; the second was characterized by accumulation by dispossession that rolled back welfare states in the North and developmental states in the South, it also integrated formerly state-socialist countries, notably China, into the capitalist world-system.

Mainstream economists and policy advisors have offered two explanations for the Wall Street crash in September 2008 and the concomitant world economic crisis. Monetarists saw the loose monetary policies of Alan Greenspan, Ben Bernanke and big government as the cause of speculative bubbles that eventually burst and crashes (Kindleberger 1978, Akerlof; Shiller 2009). The former suggest tight money and austerity, the latter reregulation as remedies for future crisis. As emergency measures for crisis containment, Monetarists prefer bank bailouts while New Keynesians advocate for fiscal stimulus. Both groups focus on financial markets, policy failures and the short term. A crucial implication of these foci is that political intervention of one sort or another, regardless of the fact that Monetarists wrap their preferred policies in the language of non-intervention, can help to get the economy back on its long-term growth path, which is determined by the growth of labour supply and technical progress (Barro, Sala-i-Martin 2003).

Marxists have an entirely different view. They see capital accumulation as inherently crisis-prone and bound for stagnation. From this angle, political intervention may succeed in containing a crisis momentarily but will not be able to avoid the crisis next time. Only a transition from capitalism to socialism can break the crisis cycle (O'Connor 1987). This article contributes to the Marxist tradition of crisis theory. More specifically, it uses Rosa Luxemburg's 'Accumulation of Capital' (1913)¹ to analyze the capitalist development and US hegemony. Central to this approach is the idea that capitalism is plagued by a lack of effective demand and thus a lack of profitable investment opportunities. Only the capitalist expansion into non-capitalist environments, whether these are found in the centres or the peripheries of the capitalist world system, can save capital accumulation.

I shall argue that the US overcame capitalism's tendency towards stagnation twice since WWII. In the 1950s and 1960s, capitalist accumulation penetrated private households and small business sectors that were hitherto engaged in simple commodity production. This capitalist expansion within the US consolidated the dominance of monopoly capital and went hand in hand with the rise of mass consumption (Baran, Sweezy 1966, chapters 2&5). It was accompanied by foreign direct investments and military engagement in the Global South (Magdoff 1966).

¹ Future references to this work: AC

Consumer capitalism at home and neo-colonialism abroad triggered the post-war boom; they also established the US firmly as the leader of the capitalist centres. Yet, in the 1970s, a series of financial, economic and fiscal crises brought stagnationist tendencies to the fore again. They were overcome this time by the turn to accumulation by dispossession (Harvey 2003, chapter 4), which created new investment opportunities by rolling back welfare states in the North and developmental states in the South. Due to the crucial role of finance, centred on Wall Street, and the military, centred in the Pentagon, the US could reassert their leading role among capitalist powers (Schmidt 2008b). Yet, this reassertion needs to be qualified. On the one hand, US growth from the 1990s until the present was higher than that of other capitalist centres; on the other hand, it was considerably lower than it had been in the 1950s and 1960s.

A number of Marxist theories were developed in the past to understand capitalist stagnation and US decline. Robert Brenner (2002, 2006) advanced the argument that accumulation suffers from the restraint of overcapacities. Authors around *Monthly Review* (Baran; Sweezy 1966, Foster; Magdoff 2009, Sweezy, Magdoff 1977) argue that major innovations, namely the automobile and concomitant suburbanization, exhausted their growth potential and that subsequent innovations did not have the same forward and backward linkages that characterized the ones on which consumer capitalism was built. Giovanni Arrighi (1994, 2007) makes a similar point by stressing the turn of US hegemony from ascendancy, based on competitive advantage over other capitalist centres, to decline. The decline, he suggests, is only delayed by the US's central role in world finance that allows extended control and appropriation of capital in other parts of the world.

All of the aforementioned theories offer valuable insights into the development of US and world capitalism since WWII and particularly in case of world-systems theory, even earlier. But they also share a major weakness. They identify the crises of the 1970s as the turning point from post-war prosperity to stagnation but fail to explain why the US could maintain their leading position in the face of lower growth. And they can't explain why US growth in relative terms was higher than it was in competitor countries like Germany and Japan. The apparent contradiction between the theoretical diagnosis of stagnation and the reality of continuous growth, however small, and US hegemony, however hollow, led some Marxists to the conclusion that US capitalism is close to being invincible (Panitch, Konings 2008).

However, the Wall Street crash, the world recession of 2008/9, continuing fears for a 1930s or 1970s-style double-dip recession, and the transformation of private sector crisis into fiscal crises in the US and all other capitalist centres put more than one question mark behind claims for enduring US hegemony. While Brenner, Arrighi and the Monthly Review-school have difficulties explaining why US hegemony could be maintained even in the face of slow growth, Panitch and his collaborators are at pains fitting the 'Crisis this Time' (Panitch et al. 2011) into their theory of continued US hegemony.

This is where the Luxemburgian approach suggested in this article comes into play. Its focus on capitalism's need to open non-capitalist environments for capitalist penetration allows the distinction of two phases of expansion since WWII. In the first phase welfare and developmental states facilitated the integration of private households and small businesses in the North and subsistence economies in the South into the circuits of global capital accumulation. The paradox of this first phase of capitalist expansion was that welfare and developmental states facilitated the commodification of non-capitalist environments and limited capital accumulation by establishing extended public sectors and regulations for the flows of private capital. These latter two aspects were the starting point for a phase of accumulation by dispossession, in which welfare and developmental states were rolled back and the economic space they had controlled was opened up for private capital investments. This accumulation by dispossession got a massive boost after the collapse of the Soviet Empire and China's turn to world market integration (Harvey 2005, chapter 5). Yet the same investments in formerly state socialist countries that spurred accumulation from the early 1990s to the present crisis also added additional production capacities and are thus a cause of the crisis.

Whether one agrees with such arguments or not, the use of a Luxemburgian approach needs some explanation. Since the publication of the 'Accumulation of Capital' in 1913, critics have charged Luxemburg with economic determinism.² Moreover, the first half of the 20th century, with its recurrent wars, revolutions and economic crises, may be seen as confirmation of Luxemburg's theory, but the post-war prosperity and the weaker phase of accumulation by dispossession are clearly at odds with her prognoses of economic stagnation and the collapse of the capitalist

² For a critique of such interpretations, see: Geras 1976, Rousseas 1979, Zarembka 2002.

system. Yet, Luxemburg devoted approximately one third of the 'Accumulation of Capital' to the analysis of economic ideas and policies that were discussed at different phases of capitalist development. A recurrent theme in these debates was the question of whether accumulation is limited by insufficient demand or whether market adjustments will always equilibrate supply and demand. The underlying theme that she identifies in these debates is the need to search for new areas for capitalist expansion.

To show that the 'Accumulation of Capital' represents a genuine approach to political economy, as opposed to a deterministic economic model³, the next two sections (1.1&1.2) of this article will introduce the core concepts of Luxemburg's theory and discuss the critiques of her work in the context of the economic and political crisis of their times. The remainder of the article (2.1-2.3) will apply Luxemburg's political economy to the development of US capitalism from the post-war period until today.

1 Rosa Luxemburg's Political Economy

1.1 The 'Accumulation of Capital'...

Luxemburg begins her analysis with a look at the reproduction schemes that Marx introduced in *Capital*, Vol. II (1885) to analyze the exchange relations between constant capital, variable capital and surplus value on the one hand, and on the other production of the means of production, reproducing constant capital, and consumer goods, reproducing variable capital and the consumption of capitalists. Finding 'an effective demand for the surplus values' (AC 138), she concludes from her reading of Marx, is the crucial precondition of capitalist accumulation. Going from there, she discusses the possibilities of generating such demand from either

³ It should be noted that Luxemburg was well aware of the limitations of purely theoretical models. Speaking about propositions derived from such models, she says: '...we must further inquire whether it is not merely because mathematical equations are easily put on paper' and continues: 'the time has come to look for the concrete social conditions of accumulation'. (AC 91)

increased consumption or from investment. Any such demand, she argues, only suffices to reproduce the already existing wealth in the capitalist economy. Accumulation, however, requires additional demand and this can only be found, according to Luxemburg, in 'non-capitalist social environments' (AC 347). Such non-capitalist economies, Luxemburg calls them 'natural economies' (AC, chapter 27), are characterized by subsistence production, barter exchange and very limited monetary exchange. At a maximum, 'commodity economies' (AC, chapter 28) were characterised by 'simple reproduction', mediated by commodity exchange, but were certainly not driven by the imperative to accumulate in a system of 'expanded reproduction'.

A key tool to open up external markets, i.e. capitalist expansion into non-capitalist environments, is credit (AC, chapter 30). Credit provides economic agents in non-capitalist environment with purchasing power and integrates them into the process of capitalist accumulation. The irony of this integration is that, whenever it happens, external markets are transformed into internal markets that are prone to insufficient demand. At some point all previously non-capitalist environments will be absorbed into capitalism, the reservoir of additional demand therefore dries up and accumulation, therefore, comes to a standstill: 'Capitalism (...) strives to become universal (...) and it must break down – because it is immanently incapable of becoming a universal form of production.' (AC 447) This is a logical conclusion, derived from an abstract model of accumulation. Regarding the application of such a model to the actual development of capitalism, Luxemburg continues: 'In its living history it (capitalism, IS) is a contradiction in itself, and its movement of accumulation provides a solution to the conflict and aggravates it at the same time.' (AC 447) This proposition hardly suggests the automatic collapse of capitalism; it rather points towards, to paraphrase Marx, 'men who make their own history under circumstances existing already, given and transmitted from the past.' (Marx 1852, 103). In fact, Luxemburg argues that, in order to escape 'a string of political and social disasters and convulsions', the working class has to 'revolt against the rule of capital'. (AC 447) This implies that labour movements have a choice between seeking cooptation by the capitalist state or fighting against it and the economic system that it represents. Writing in a prison cell during World War I, she labelled this choice as one between 'socialism or barbarism' (Luxemburg 1916).

Another implication of Luxemburg's theory of accumulation should be mentioned, as it will be important for the analysis in the second part of this article. Luxemburg rejects the idea, prominent in much of recent globalization literature, that capitalism develops within domestic economies and enters the world market only at a later stage, which leads to the withering of nation-states (Reich 1992). Against such views she maintains that 'international trade is a prime necessity for the historical existence of capitalism' (AC 340) and warns that limits to accumulation will lead to increased competition between states (AC, chapters 31&32). The crucial distinction, thus, is not between domestic markets and foreign markets but between internal markets – 'the capitalist market' – and external markets – the 'non-capitalist social environment which absorbs the products of capitalism and supplies producer goods and labour power for capitalist production' (AC 347).⁴ It follows that capitalist expansion does not necessarily, certainly not exclusively, consist of capitalist firms establishing trading posts and production sites outside the country of their origin. It also consists of the replacement of the 'natural economy' by the 'commodity economy' and finally the emergence of the imperative to accumulate (AC, chapters 27&28) within the borders of all capitalist states. For example, the commodification of household production and the subjugation of small businesses to the imperatives of capital accumulation played a major role in the long boom that began with World War II (Lutz 1984).

As the room for capitalist expansion narrows, competition between capitalist firms gets more intense and the state is increasingly seen, according to Luxemburg, as a means to protect market shares of domestic companies against foreign competitors. Thus, the smaller the external markets, the more prominent the political and economic role of the state. Intensified state competition and militarism are a consequence of this. With regards to the latter, Luxemburg says that it 'is a pre-eminent means for the realisation of surplus value; it is in itself a province of accumulation' (AC 434). This argument, particularly when it is extended from military spending to other kinds of public spending (Baran, Sweezy 1966, Kalecki 1967), points to the role that warfare and welfare states played in the post-war prosperity and the later phase of accumulation by dispossession. Although the latter was ideologically couched in neoliberalism's anti-state propaganda, the state continued to play an important role as 'a province of accumulation' and an opener

⁴ This is an anticipation of Sweezy's argument in the 1950s debate on the transition from feudalism to capitalism (Sweezy et al. 1976).

for markets in non-capitalist environments (Harvey 2003, chapter 4, Harvey 2005, chapter 3).

However, before turning to the analysis of US-led capitalism, we will have a quick look at the way Luxemburg links debates about economic theory, policy and the historical development of capitalism. This will help to further the argument that Luxemburg did not develop an abstract model of economic collapse but a political economy approach, and will also allow us to put the criticism with which her theory met into historical perspective.

Section II of the *Accumulation of Capital* discusses three rounds of debate about accumulation, crisis tendencies and the need, or potential, for political intervention. Each of these debates had, on the one side, defenders of indefinite accumulation, which might be hampered by disproportions between different economic sectors momentarily, and theoreticians of insufficient effective demand on the other. The original liberal argument that accumulation feeds itself by creating additional supply and, at the same time, demand, most famously articulated by David Ricardo and Jean-Baptiste Say, was challenged by politically diverse figures as Thomas Malthus and Simonde de Sismondi 'under the immediate impact of the first crises of 1815 and 1818-19 in England' (AC 147). The second debate took place among German economists Johann Karl Rodbertus and Julius Hermann von Kirchmann against the background of the 'risings of the Lyon silk weavers and the Chartist movement in England' (AC 203) and was further inspired by 'the first world crisis in 1857' (AC 204). Rodbertus saw a declining share of wages in total income, which he sought to correct by political intervention earning him the title of state socialist, as a limit to accumulation, whereas von Kirchmann saw a need for market expansion to keep accumulation going. The third debate involved the so-called 'legal Marxists', most prominently Mikhail Ivanovich Tugan-Baranovsky, who had witnessed the Great Depression of the 1870s and the arrival of mass workers movements across Europe. In assessing the prospect of capitalist development in Russia, which the Tsarist government had made a priority since the late 1870s, the legal Marxists, says Luxemburg, 'join forces with the bourgeois 'harmonists' of the Golden Age shortly before the Fall when bourgeois economics was expelled from the Garden of Innocence – the circle is closed' (AC 304).

Some notable shifts occurred from one round of debate to the other. First, the locus of debate moves from England to Germany and eventually to Russia. This trajectory

reflects the shift of the centre of accumulation to the then emerging markets in Central and Eastern Europe. Second, the economic background of discussion moves from cyclical crisis that inspired the critique of classical liberalism to problems of long-term growth raised by the Great Depression of the 1870s.⁵ Third, political solutions that are suggested to fix, or overcome, the limits of accumulation shift from restoring feudalism – Malthus idea to create a class of unproductive consumers who would happily waste capitalist surpluses – to state intervention that should – as Rodbertus suggested – create effective demand by shifting the income distribution from profits to wages. The legal Marxists, believing in unlimited accumulation, thought state intervention unnecessary, but Luxemburg, whose analysis of accumulation and imperialism represents the counterpart to the legal Marxists, showed that militarism and protectionism are the kinds of state intervention that become necessary once accumulation reaches the limits of ‘absorbable’ non-capitalist environments. The alternative, of course, is a working-class revolution against capitalism.

1.2 ...And its Critics

As mentioned above, critics of Luxemburg – ranging from the social democrat Otto Bauer (1913) to the communists Nikolai Bukharin (1924) and Henryk Grossman (1929) and the independent socialist Paul Sweezy (1942, chapter XI.8) – directed their fire almost exclusively against Luxemburg’s formal discussion and critique of Marx’s reproduction schemes. That she moved from an abstract model to a discussion of theories of accumulation at certain historical junctures and only then developed her theoretically and historically based theory either escaped their attention or was consciously ignored. However, putting their critique into historical perspective and considering their own political projects helps to understand why they rejected Luxemburg’s theory so strongly.

⁵ It should be noted that Luxemburg explicitly claims to develop a theory of long-term accumulation instead of a theory of business cycles: ‘In order to demonstrate the pure implications of capitalist reproduction we must rather consider it quite apart from the periodical cycles and crises.’ (AC 7)

Against Luxemburg's proposition that accumulation would be impossible without the expansion into non-capitalist environments, Bauer argued that accumulation may, because of the uncoordinated nature of private investment decisions, see temporary disproportions between economic sectors but wouldn't be curtailed by a general lack of effective demand. Bauer's close ally Hilferding developed the implications of this argument, which represents some kind of 'supply-side-Marxism', more thoroughly. According to Hilferding, the emergence of monopoly capitalism made the dangers of disproportionality crises much more severe than they were under competitive capitalism because cartels and corporations don't have to cut back production capacities and prices during a cyclical downturn the way that small companies do. Therefore, overcapacities in the cartelized sector prevail longer than they would under conditions of free market competition (Hilferding 1910, part 4). However, the concentration and centralization of large parts of the economy in just a few hands, moving towards a 'general cartel', also creates, according to Hilferding, the conditions for an 'organized capitalism', in which the state, representing the interests of capitalists and workers, would allocate economic resources in such a way that their full use could be guaranteed and, by implication, disproportions be avoided (Smaldone 1988). Hilferding advocated for his idea of 'organized capitalism', today's social scientists might call it corporatism, during the early years of World War I and again in the mid-1920s, between the end of the revolutionary wave following the war and the beginning of the Great Depression.

Bukharin's analysis of capitalism and his critique of Luxemburg are strikingly similar to Bauer's. Their common point of reference is Hilferding's 'Finance Capital' whose economic analysis Bukharin widely accepts. He also agrees with Hilferding's political conclusion that monopoly capitalism could lead to some kind of 'organized capitalism', which Bukharin rebranded as 'state capitalism' (Bukharin 1915, chapter 13). The only disagreement he has with Hilferding and Bauer is that the latter two accepted Kautsky's theory of 'ultra-imperialism' (1914), which argues that conflict between states can be moderated politically in the same manner as class antagonisms within countries. After the outbreak of World War I, one didn't need to be a communist like Bukharin to reject the idea of 'ultra-imperialism' on purely empirical grounds. However, Bukharin had something to explain after the economic crises and revolutionary upheavals that had ended the war gave way to a period of 'relative stabilization of capitalism' around 1923. At this time, Bukharin (1924) picked up his Hilferding-style analysis of accumulation and turned it against

Luxemburg. His aim was to reorient communists who were waiting for a return of crisis and open class struggle in the capitalist world towards support for the young Soviet Union, which he presented as the only beacon of hope during a time of capitalist stabilization. Luxemburg became a key target in this regard because her ideas were still influential among communists after she had been murdered in 1919.

Only two years after proclaiming the stabilization of capitalism, Bukharin, for reasons having more to do with factional battles among the Bolsheviks than with clear economic foresight (Kozlov, Weitz 1989), announced a period of imminent crisis. The hostility of Soviet communism towards Luxemburg's ideas remained, though. Henryk Grossmann, working at Frankfurt's famous Institute for Social Research at the time but also being a member of the communist party, picked up Bauer's critique of Rosa Luxemburg, which he fully endorsed, and developed a supply-side argument for capitalist breakdown out of this critique (Grossmann 1929, chapters 2.3&2.16). It was not the lack of non-socialist environments and effective demand, as in Luxemburg's analysis, but the lack of investable surplus that was the reason for collapse in Grossmann's theory. The publication of his book in 1929 couldn't have been more timely, even though his arguments were refuted by a capitalist system awash with money seeking profitable investments but short of effective demand (Sweezy 1942, chapter XI.10).⁶

Sweezy, after reviewing Marxist theories of crisis, picked up Luxemburg's 'demand-side Marxism' in his 'Theory of Capitalist Development'. Sure enough, he doesn't agree with the way Luxemburg makes her case for insufficient demand and stagnation, in fact he strongly rejects it, but he clearly arrives at similar conclusions by saying that the trend to 'chronic depression' (Sweezy 1942, chapter XXII) might be delayed by exceptional circumstances but is unavoidable over the long haul. This ambiguity between recognizing the possibility of further accumulation and tendencies towards stagnation reflects the uncertainties of the times during which he wrote his book. A full-scale war effort had pulled the American economy out of its decade-long depression in the early 1940s, a confirmation of Luxemburg's views on the economic role of militarism, but contemporaries across the political spectrum were still suspicious that the end of the war and the subsequent reduction in arms production would signal a return of a depression.

⁶ For a more positive interpretation of Grossmann's work see Kuhn 2007.

As Luxemburg used 19th century controversies on accumulation to develop her own analysis of turn of the century imperialism⁷, we might use the debate that followed the publication of her *Accumulation of Capital* to gain some ideas for our analysis of 20th century capitalism. One might even get the impression that history repeats itself. For example, current ideas about a New or Green New Deal make open references to Roosevelt's New Deal in the 1930s and can theoretically draw on the Bauer-Hilferding tradition. Links can also be drawn from Hilferding's analysis of 'Finance Capital' to ideas about finance-led growth (Boyer 2000), which were fairly popular before the financial crises of 2001 and 2008. Moreover, the turn from the New Economy to the War on Terror after the 2001 crisis look like the rise of militarism at the end of the 19th century. More generally, world-systems theorists like Arrighi and Wallerstein draw parallels between the decline of the British Empire about a century ago and the current decline of US hegemony. Their theory is based on the idea of 'systemic cycles' (Arrighi 1994) that, based on an organization of production and trade that is more productive than others, describes hegemonic powers who, once they lose their competitive edge, maintain their hegemonic position by reaping financial profits off of other countries but who will eventually decline. When considering theories of hegemonic cycles the question of who is next arises. Arrighi recently suggested that China would succeed the US as a world leader (Arrighi 2007). Yet, it remained unclear in his analysis whether this will lead to conflict between decaying capitalism, still led by the US, and a somehow non-capitalist China or whether China is bound to become a capitalist hegemon. Other left analysts, more critical about China, see it either as a capitalist competitor (Li 2008) to Western capitalism or the latest incumbent to the Western club of imperialists (Burkett, Hart-Landsberg 2005). The same old questions all over again: Will the 'ultra-imperialist' cooperation among great powers turn into imperialist conflict? Is the world economy in for a period of stagnation or will a new capitalist hegemon rise and spur the rest of the world economy? Or will we see a transition towards socialism?

The following analysis uses Luxemburg's theory of accumulation to show that the US-led wave of accumulation in the 20th century put questions on the agenda of the early 21st century that are strikingly similar to those at the dawn of US-hegemony. In fact, one wonders whether world capitalism has gone full circle since the

⁷ It should be noted that the German original appeared of her book appeared with the subtitle 'A Contribution to the Analysis of Imperialism'

'Accumulation of Capital' was published and whether we are headed for a similar period of conflict and crises that Luxemburg so aptly predicted in her work. However, this does not suggest, like world-systems theory implies, that economies and societies develop in endless circles. The 'demand-side Marxism' that Luxemburg developed suggests that capitalist development is plagued by a tendency towards stagnation. The tensions between its built-in growth imperative and limits to accumulation lead to political conflicts, which, under particular circumstances, may open new fields for capitalist expansion. The US actually became a hegemonic power because it opened such fields in the past but that doesn't mean that capitalism will see yet another wave of accumulation. The analysis of this development is woven around three threads: First, the need to find non-capitalist environments for further accumulation; second, the need to subordinate working classes to the imperatives of accumulation and capitalist rule, and third, the need for a hegemonic power to avoid imperialist conflict.⁸

2 US Hegemony and Capitalist Development:

A period of rather high growth was drawing to a close when the Accumulation of Capital was published in 1913. A year later, a period began of wars, revolutions, counterrevolutions and economic crises that seem to confirm the gloomy outlook with which Luxemburg had concluded the book. Colonial powers, after dividing the worlds' peripheries amongst themselves, turned to war against each other. It was not long after that workers in many countries rebelled against their misuse as cannon fodder in a war that wasn't theirs. The political and economic stabilization that followed WWI and its revolutionary aftermath in the 1920s didn't last long. The 1930s were a decade of economic depression, labour unrest and civil war, all of which contributed to the outbreak of WWII.

⁸ World-systems theory is particularly strong on the last point, but doesn't say much on the first. However, a recent book by Beverly Silver (2003) systematically incorporates the role of working classes into the analysis of capitalist development. Workers and their struggles were more of a sideshow in earlier contributions by world systems theorists (Arrighi et al. 1989).

Yet, the Western welfare states, Eastern state socialism, and Southern developmental states⁹ that shaped the world after WWII apparently rebutted Luxemburg's theories about the limits of capital accumulation and ever intensifying class struggle. In turn, her social democratic and communist critics seemed to win the day. By and large, welfare states, whatever their differences across countries, fit Hilferding's idea of organized capitalism, where representatives from labour, capital and the state would cooperate in such a way that economic imbalances could be avoided. Political class compromise and Keynesian demand management spurred unprecedented economic growth, which allowed the transformation of impoverished workers into affluent consumers. Imperialist rivalries were superseded by international cooperation within the United Nations and Bretton Woods systems and a number of other organisations. Colonies gained political independence and overcame their role as outlets for surplus production from the capitalist centres by developing their own industries and domestic markets. Kautsky might have called this combination of international cooperation and economic development of the South 'ultraimperialism' and might have seen it as a way to overcome inequalities across countries in much the same way as Hilferding saw organized capitalism as a way to overcome inequalities within countries. Moreover, the consolidation and expansion of Soviet communism into Eastern Europe and the Chinese revolution seemingly proved Bukharin's argument that socialism would not emerge from capitalist decline and workers revolution but from further development of the Soviet Union. Of course, the expansion of state socialism diminished the capitalist world market but this did not seem to impede capitalist accumulation at all. Thus, the idea that expansion into non-capitalist environments is a necessary condition for growth looked rather futile. Yet, such expansion occurred and fuelled the long boom in the post-war period. It just didn't take the form of colonial conquest that was projected by Luxemburg.

2.1 Post-War Prosperity: Consumer Capitalism and Neo-Colonialism

⁹ For an overview of postwar developments in these 'three worlds', see Birnbaum (2001, chapters 5-7) and Haggard, Kaufman (2008, part 1).

Workers struggles in the capitalist centres and anti-colonial struggles in the South – both inspired and supported by the Soviet Union to a greater or lesser extent – created an appetite among capitalist classes to co-opt and integrate these respective movements. Welfare and developmental states became the tools towards this political end but also the means for market expansion. This argument may seem counterintuitive. After all, nationalizations in both kinds of states diminished the areas for capitalist operations and rising shares of taxation and public spending along with increased labour protective measures limited capitalists' control over increasing parts of the economy. Though increased state intervention during the post-war era certainly had these limiting effects on capitalist accumulation, it also had the effect of opening up new markets to capitalist expansion (Schmidt 1997, chapter 2.2.4). In the capitalist centres, this is particularly true for economic activity in working class households and small businesses, like farming, craft production, and retail. All of these areas had certainly, in Luxemburg's terms, passed from the stage of 'natural economies' to 'commodity economies'. Increased wages bought consumer goods and small businesses produced, or offered services, for market sale. However, there was still ample room for capitalist expansion into non-capitalist environments. A significant share of household production – food preservation and processing, cleaning and care work, mostly done by women – was still outside the cash-nexus. Small businesses, in turn, remained largely in the realm of 'simple reproduction', which means that all revenue exceeding their costs went into consumption and possibly some retirement savings but not into business expansion. Many of these small businesses were, particularly after the Great Depression, burdened with debt that made them easy prey for capitalist corporations seeking market outlets. State intervention in the post-war era, partly going back to interventions during the war, contributed to the penetration of the household and small business sectors by the imperatives of accumulation or 'expanded reproduction', respectively (Gordon, Rosenthal 2003).

Moderated by the state, compacts between labour and capital were negotiated in key industries. This 'organized capitalism' turned workers, to a greater or lesser extents, into consumers, indeed. Crucially, though, purchases of refrigerators, washers and other household appliances were a form of capitalist expansion into the non-capitalist environment of household production. The same is true for the expansion of culture industries into the realms of community-based cultures. These expansions were further advanced by state built infrastructures that allowed cheap

delivery of mass produced goods. As a result, small businesses serving only local markets were increasingly replaced by a combination of large-scale producers and retail chains. Of course, infrastructure investments also spurred accumulation directly, particularly in construction industries.

Capitalist expansion was further fuelled by the industrialization of peripheral countries, however incomplete this was. Though developmental states were aiming at the emergence of domestic industries and markets, they also had to import capital, namely investment goods and technologies, from the capitalist centres. State-backed development thus helped to expand capitalist relations of production in previously non-capitalist environments in the periphery.

The idea to substitute domestic class struggle for welfare states and imperialist rivalry and colonial exploitation for international cooperation and development were not new, as the theories of 'organized capitalism' and 'ultraimperialism' show. In the past, they had been resisted because ruling classes in the capitalist centres considered concessions to labour and anti-colonial movements as first steps in undermining their political power and economic wealth. Towards the end of WWII, the neoliberal mastermind Friedrich Hayek (1944) was still warning of 'the road to serfdom', but the thinking of the ruling classes was changing at that time. There was no doubt that the US was establishing itself as the unchallenged leader of the capitalist centres so that imperialist rivalries became obsolete. Containment of Soviet and Chinese communism became the main goal of this collective imperialism, led by the US (Schmidt 2008a). Anti-communism, though, was not only directed against communist regimes in Moscow and Beijing but also against radical currents in Western labour movements and Southern developmental states. The Cold War, then, created the conditions under which welfare and developmental states became politically acceptable for ruling classes in the capitalist centres. As already shown, the acceptance of state moderation also opened new fields of non-capitalist environments for capitalist expansion. Of course, the Cold War also came with an arms economy (Baran, Sweezy 1966, chapter 7) that confirmed Luxemburg's views on the role of militarism in the process of capitalist accumulation.

2.2 The End of Prosperity

Mass consumption in the West, industrialization in the South and generally increased state expenditures, including arms production and infrastructure investments, were the sources of economic growth during the post-WWII-boom. Its political basis was a Cold War bloc of US-led Western bourgeoisies, trade unions and development regimes in the South. By the 1970s, though, the post-war boom went bust. Markets for mass consumer goods showed signs of saturation after the top layers of Western working classes, who were integrated into capital-labour-compacts, had adopted middle-class lifestyles. The arms economy, which had spurred accumulation in the US during the 1950s and 60s so much, had unintended effects because Germany and Japan, where arms production was insignificant compared to the US, had used the long boom to build up export industries that became major competitors of US corporations in the 1970s. The combined outcome of market saturation and the emergence of new export industries were overcapacities in the industrial sectors that had been growth engines during the boom (Brenner 2002, chapter 1). In this respect, things could only get worse because some of the developmental regimes, particularly in South Asia, were turning from the development of their domestic markets, the expansion into non-capitalist environments on their own territory, to the markets of rich countries in the West.

Sure enough, non-capitalist environments were by no means exhausted by the 1970s. Poor workers, often immigrant and female, in the capitalist centres were still performing unpaid work in the private household sector on top of their low-wage work. In the South, the penetration of vast hinterlands around a few isolated centres of industrialization had hardly begun. Thus, from a purely economic point of view, further capitalist expansion would have been possible (Heim 1996). However, ruling classes were reconsidering their views on welfare and developmental states for political reasons (Jenkins, Eckert 2000). A wave of labour militancy and anti-colonial struggles had shaken the capitalist world since the 1960s. In the capitalist centres, workers struggled for higher wages and welfare state expansion, and against Taylorist factory regimes (Horn 2007, chapter 7). Higher wages and further expansion of the welfare state could have created higher demand for consumer goods. Yet, equal wages for both sexes and workers of all colours were incompatible with the preservation of segmented labour markets that capitalists considered as crucial for their rule over the working class (Edwards 1979). Over the course of the

1970s, capitalists came to the conclusion that it was better to reinforce control over workers even at the price of losing some of these workers as affluent consumers.

At the same time, different cross-class coalitions in the South fought against imperialist domination and for a new world economic order (Murphy 1983). Things came to a head with the oil-price hikes in 1973 and 1979, and workers demands for nominal wage increases that would compensate them for the loss of purchasing power that came with higher oil prices. The confluence of struggles over wages and resource prices convinced the ruling classes in the West that it was time to fight back against welfare and developmental states that were increasingly seen as a springboard for accelerating claims by workers and poor countries' peoples. Moreover, oil price hikes put the issue of ecological limits of capital accumulation onto ruling classes' radar screens. As a result of the economic and ecological crises of the 1970s, they turned to neoliberalism (Glyn 2006, chapters 1&2).

Fiscal austerity and tight money were the means to undermine the bargaining power of workers and developmental regimes. This strategy, combined with military interventions against left-leaning governments in the South, allowed capitalist centres to reclaim monopoly access to the world's resources. Politically, the neoliberal assault on developmental and welfare states helped to restore the power of capital over workers and of capitalist centres over peripheries (Glyn 2006, chapters 4, 5&7). Moreover, the weight of international finance and the military, both dominated by the US, in the neoliberal policy package helped to regain American hegemony, which had not only been challenged by workers and other popular movements from below but also by export-oriented accumulation in Germany and Japan. After the neoliberal turn, the latter were still a competitive threat to US manufacturers, not unwelcome to keep wage pressures on American workers up, but they had nothing to compete with the 'Pentagon Wall Street Capitalism' (Schmidt 2008b).

2.3 Accumulation by Dispossession

The restoration of US hegemony and capitalist power more generally had an economic Achilles' heel, though. The forms of capitalist expansion that made the

long post-war boom possible, namely the rise of consumer capitalism in the West and domestically oriented industrialization in the South, were either challenged or directly attacked by neoliberal policies. New areas and forms for capitalist expansion had to be found, if stagnation, a recurrent theme in economic debates during the 1970s, was to be avoided.

Theoretically, the adherents of neoliberal policies denied such problems with reference to Say's Law according to which supply creates its own demand if state intervention doesn't tie up the invisible hand of the market. In the early 1980s, this argument, which had been criticized by Marx and Luxemburg, but also by the bourgeois economist Keynes, was updated with a renewed emphasis on Schumpeter's idea of innovation as a driver of economic growth.¹⁰ Many Keynesian economists consider the turn from demand management to supply-side policies as the reason for the growth slowdown following the long boom of the 1950s and 60s (Skidelsky 2009). It should be noted, though, that the Keynesian business cycle models that guided economic policies during the long boom, denied the need for expansion into non-capitalist environments as much as it was denied by the supply-side theories that became popular under neoliberalism. A Luxemburgian perspective draws a different picture: On the one hand it confirms the Keynesian assertion that neoliberal policies constrained capital accumulation. On the other hand, it shows that these policies did create new forms of capitalist expansion to avoid stagnation. Neoliberal rhetoric about market notwithstanding, it was the state that played a crucial role in initiating and furthering forms of expansion that David Harvey subsumed as 'accumulation by dispossession' (2003, 145-152), though it might have been more precise to speak about the enforced transfer of public property, or that of working class households and small businesses, into corporate property.

The most obvious form of such transfers is the privatization of publicly owned industries, such as telecommunications and railways, or public services, such as health care. In terms of scale, these privatizations in the West paled in comparison to the transformation of state socialism into capitalism in the East. With the Soviet

¹⁰ This new wave of Schumpeterian thinking was later labeled as 'endogenous growth theory', for a comprehensive survey see Aghion, Howitt (1998).

Empire collapsing and China turning to capitalism with retention of its political system, vast new territories were opened up for capital accumulation¹¹.

Aside from privatizations, massive expansions of credit and stock markets, beginning in the 1980s and picking up steam in the 1990s, played a key role in furthering capital accumulation under neoliberalism. This was a way to boost consumer demand in a time of wage restraint and allowed corporate finance to gain control over pension plans. The US more than any other capitalist centre positioned itself as the world's financial centre and consumer of last resort at the same time. This latter role allowed some of the former developmental states to become exporters of mass-produced consumer goods. Export-oriented accumulation in the South was accompanied by large-scale destruction of subsistence production and small businesses that previously had contributed to the simple reproduction within local economies¹².

The overall outcome of neoliberal forms of accumulation were contradictory, though: On the one hand, the assault on welfare and developmental state led to a redistribution from wages to profits and from poor to rich countries, thus swelling the capital funds seeking profitable investment opportunities. On the other hand, there was never enough room for capitalist expansion to absorb all these funds. Parts of them ended up in financial markets where they fuelled claims for future profit even further without contributing to the accumulation of productive capital. The ever widening gap between productive accumulation and financial accumulation was filled by asset-inflation, which led to recurrent financial and economic crises in every corner of the world and eventually caused the Wall Street crash and Great Recession of 2008. Determined intervention by governments and central banks halted the threat of imminent collapse of the worldwide circulation of capital and contained the depths of the crisis. However, these interventions did not solve the underlying problem of too much capital chasing too few profitable investment opportunities. By pouring liquidity and public money into the global financial system, over-accumulated capital was saved from depreciation and is

¹¹ Current debates about future prospects of capital accumulation bear strong resemblance with the controversies about capitalist development in Russia, to which Luxemburg contributed in the 'Accumulation of Capital' (AC, chapters 18-24).

¹² Analyses of this 'new wave' of capitalist expansion into non-capitalist environments, including the role of international finance, often read like the late 19th century wave of expansion that Luxemburg (AC, chapters 27-30) described.

therefore still looking for investment opportunities that aren't on the horizon. Over the past two decades a number of emerging economies of the South, notably China, provided vast outlets for capital investments. Utilization of the production capacities that were created during this process would require the transformation of Southern workers, at least a significant share of them, into affluent consumers. Ironically enough, the IMF, usually an advocate of low wages and welfare state retrenchment, tells Chinese leader that they should turn to the kind of welfare capitalism that Western countries abandoned in the 1970s (IMF 2010). Yet, chances are that the new Chinese capitalist class in alliance with its Western business friends will prefer the continued exploitation of cheap Chinese labour rather than allow trade unions and welfare state bureaucrats to interfere with their businesses (Ho-fung 2009, Schmidt 2010).

Moreover, since neoliberal accumulation was centred in the US, the current economic crisis also affects US hegemony. Not in the sense that any other country or group of countries seems capable of replacing the US in that position but in the sense that the US is no longer capable of inventing new frontiers that would allow capital accumulation on a world scale to recover from the Great Recession. Chances are that Luxemburg's closing remarks in the 'Accumulation of Capital' also qualify as an apt assessment of the current condition of capitalism:

'The more ruthlessly capital sets about the destruction of non-capitalist strata, at home and in the outside world, the more it lowers the standard of living for the workers as a whole, the greater also is the change in the day-to-day history of capital. It becomes a string of political and social disasters and convulsions, and under these conditions, punctuated by periodical economic catastrophes or crises, accumulation can go on no longer. But even before this natural economic impasse of capital's own creating is properly reached it becomes a necessity for the international working class to revolt against the rule of capital.' (AC, 447)

Conclusion:

The preceding depiction of capitalist accumulation under US-hegemony is obviously more a sketch than a proper analysis. It still lacks conceptual underpinnings and empirical support. Instead of that it offers a string of hypotheses. Such a loose approach is justified because there is no tradition of Luxemburgian political economy on which an analysis of US-led accumulation could be built. Strong criticism of her work during the first half of the 20th century was followed by near oblivion in the second half. Considering this state of things, it seemed more appropriate to lay out the principles of Luxemburg's own approach to political economy in the first part of this article and then present some hypotheses showing how her approach could be used for the analysis of capitalist development now. Particularly important in this respect is the finding that a careful reading of Luxemburg's theory of accumulation contradicts widely shared interpretations of her theory to be purely economical and deterministic. Conversely, this article suggests, Luxemburg's theory carefully considers the role of economic ideas as a means to articulate social interests. It also reflects the impact of class struggle, the result of antagonistic social interests, on economic developments. With a view of recurrent outbursts of class struggle, economic crises and ideological dispute, chiefly between Keynesianism and (neo-)liberalism, over the last century, Luxemburg's political economy looks like a promising approach to enrich our understanding of recent history and current developments. The sketch on capitalist development under US-hegemony that was offered in this article is an invitation to use this approach for more comprehensive analyses in the future.

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