

Chapter VII. The structural deficiency of employment-generating spending in modern capitalism

Section 1. Circuit closure analysis

The relationship between production and consumption in primitive autarch families or tribes can be imagined in the simplest case that a search of new subsidies, either by gathering plants or hunting prey, takes only place after all available subsidies have been consumed. Foresight comes into play, the search begins some time before new goods are needed, but this is limited by available storage technologies. Seasonal change and whether or not hunting, fishing or gathering is good or bad must be taken into account. If pastorage and agriculture have emerged, the seasons of seed and harvest, or the necessities from cattle life, determine the course. In this situation, an insufficiency in a group's means of consumption can result from miscalculating nature, from too little or ineptly executed human work or bad surprises: weather, catastrophes, locust, earthquakes, disease, war, etc.

The emergence of exchange and a money economy alters that greatly. It inserts itself between human collectives and nature as a new steering system. It enables higher and better production and distribution, but at the cost of a higher level of contingency and complexity that the intermediate system brings about. It also changes what matters for the producers. Weather conditions, animal migration and storing technology remain relevant, but the foresight is no longer directed to the consumption needs of the own families or the own tribe but to the esoteric demands of prospective exchange partners and their capability and will to pay.

The relationship between production and expected employment-generating spending in an exchange economy, money economy or capitalism is, in fact, the main subject of the writing of the above-mentioned examined authors. While they do not use the term “productive circuit”, they all had it clearly in mind. The authors had three different options to approach the subject: First, to view employment-generating spending as *wholly independent of production*. This implies that incomes resulting from the production of commodities (the salaries and supplier firms' revenues) are not relevant for being able to sell them. The money to buy the produce is rather exogenously generated, at least in such volumes that the lack of money

will never be a restricting factor. (This does not exclude that salaries and supplier firms' revenues may support circuit closure, yet, they are not necessary). This view reminds of the innocent times when humanity believed that its garbage, emissions etc. were so minute, when compared to the atmosphere, that they were actually negligible. There is a primordial ocean around us and we do not have to worry about the purchaser of our productions. We take A. Smith as an example of this view.

The second view does see a positive and necessary contribution of the outlays for the production of commodities to workers and supplier firms upon the employment-generating spending needed to buy them; it in fact considers this contribution as *guaranty for circuit closure*. The most famous representative of this view is the so-called "Law of Say" (we shall see that this "law" belongs more to Ricardo than to Say).¹ "Ricardo's law of Say", as we will thus call it, is either stated, without any further justification, as "supply creates its own demand" (second interpretation). Or the argument is that because suppliers and workers are paid for their inputs to a production, they would automatically be sufficiently equipped to buy the produce and would also just do that (third interpretation). In other words, the point of the third interpretation of Ricardo's Law of Say is that the origination of the problem contains a sufficient solution in itself. The problem, as we shall see, will be the profit-add-on.

A third group of authors, while they, certainly, do not ignore a sourcing contributing of production outlays upon employment-generating spending, *deny* that these outlays *will be sufficient to close the circuits*. Following different lines of thought and offering different degrees of elucidation they doubt that the exploited can buy their produce (Sismondi), that costs can buy value (Malthus), or that M can buy M' etc. The point is: If capitalism is driven by profit, which means that the central players strive for more incoming money than outgoing money, production outlays must always be less than the collections for the produced commodities. How can that gap be filled to enable that produced commodities are fully sold at adequate profits – if this is at all possible?

Historically, different notional strategies have been employed to analyze problems of circuit closure. The first strategy, the one adopted by Ricardo and his followers, used "supply" and "demand". Other writers applied the distinction between "consumption" and "investment", or sub-categories thereof (e.g., Kalecki considered capitalists' consumption plus investment). Keynes, in turn, used investment, which he partially identified with saving. This book, instead, uses the breakdown of Marx's M into *c*-outlays and *v*-outlays in the first leg of the circuit and Marx's surplus value or *s*, which brings about the difference between the aggregate outlays M and the revenues M'. This allows to split the flows into smaller parts; it thereby also allows to make the contributions of authors who use prior notional strategies comparable. As Sismondi and Malthus have already shown, every reasoning about circuit closure

1 See on page 233 et seq.