

What is the ‘Overproduction of Capital’?

[This is a question I received from my friend Kirby on April 14, 2009 and my reply. –S.H.]

----- Original Message -----

From: Kirby ...

To: Scott

Sent: Monday, April 13, 2009

Subject: Re: Article on China’s stimulus package

Try to keep the answer sort of summarized, if you can!! 😊 I think I understand the problem with overproduction of commodities, but how does the overproduction of capital add to the problem? I mean “real” capital. Not the government just printing more money. Let’s say Company A is publicly held. Whatever it is they market, they end up with excess capital. Doesn’t this just get paid to stockholders or go back into the company? If it is privately held, and the owner(s) have all the toys they want don’t they just put the excess capital generated into their pockets (bank accounts, etc. Let’s skip that they may buy stocks or bonds or precious metals. They just put it away for a “rainy day”)?

I know you have a problem with short answers....I’ve been trying to read these as you send them out....can you give me sort of a primer version of the problem with excess capital?

Scott’s Reply:

Subject: Re: Overproduction of capital

Date: Tuesday, April 14, 2009

Hi Kirby,

You are thinking of capital as money, but that is only one form it takes. Overall, money capital is just a tiny part of total (real) capital. Most real capital is in the form of factories and machinery and other such means of production.

In the capitalist production process the capitalists don’t (and can’t) pay their workers enough to buy back an equivalent value of the goods they produce. So there is this inherent problem of overproduction of commodities (overproduction in terms of actual market demand, not in terms of the goods that are actually needed by people).

But the capitalists have developed a number of important ways to temporarily get around this basic problem, the most important being creating and expanding consumer debt and government debt. This allows consumers and the government to buy things for quite a long while that really they can’t afford.

And the result of this is that the market for commodities is artificially expanded to a huge degree, which allows the capitalists to also build many more factories and buy lots more machinery to produce these additional commodities. In other words, this artificial expansion of the market makes it “reasonable” (in

the short term) for the capitalists to *also* greatly expand their capital (capital in the form of factories and machinery).

When an overproduction crisis breaks out, and there is a sudden great excess of commodities that can no longer be sold (because consumer debt can no longer be expanded sufficiently), it is actually relatively easy for the capitalists to deal with this aspect of the problem. They can quickly shut down production lines, lay off workers, and stop producing the excess commodities.

But the bigger problem is the enormous accumulation of excess capital in the form of suddenly idle factories, machinery, etc., which no longer has any useful function! This “overhang” of excess productive capital is a much bigger economic problem than any temporary excess of commodities.

All during the boom the capitalists were using the biggest part of the surplus value they were extracting from their workers in order to expand production (i.e. expand productive capital). But now that no longer makes any sense, given this huge overhang of unusable factories. In other words it no longer makes sense to keep expanding production and keep the economy going.

The chickens have come home to roost!

Scott

P.S. If that explanation was too long for you, I'm sorry. Sometime try to write down precisely what a person does when they tie their shoes. You'll find you need both a specialized vocabulary and definitely more than a few sentences to coherently explain it. The same is true about many other things in the world. In the case of tying one's shoes, it is much simpler to just *show* someone how to do it. But for things which must be explained in words there is often no way to explain them briefly. Those who will not read the necessary longer explanations are simply condemned to never understand how the process in question actually works.

Kirby's Response:

Re: Overproduction of capital

Date: 4/14/09

To: Scott

No...this was perfect...you're right...I only thought of “capital” as money. This makes it clearer. This raises another question, but have to go off to a 90 minute meeting right now. Will get back to it later.

[Kirby]