

Overproduction Crisis and Environmental Issues

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Abstract: *The present paper aims at reviewing the economic crises that have occurred since the 19th century until the present. There have also been considered the causes that generated such crises, the way in which they manifested and the effects they generate. The state intervention represents a form of crisis management, yet not a guaranteed one.*

Keywords: Crisis, overproduction, environment, loans, gap, real economy, monetary economy, re-launch, monetary policy

The *overproduction* influencing crises does not represent a production exceeding the needs of the society, but rather the population's solvable demand for goods and services.

The Marxist theory explaining the crises mechanism is partially valid. This is grounded on the observation that a tendency of the companies exists of amplifying the part afferent to investments by diminishing the part corresponding to salaries and amplifying the number of the restructured persons.

Thus, pressures are created over the incomes obtained on a social level. The increase of profits and relative decrease of salaries

contributes to the decrease in the population's buying force.

The gap between the organization of production on the level of companies and the macro-social organization creates unbalanced effects on the economical level, creating overproduction. The overproduction crises prevention measures: policies for increasing outlets, measures for loans selling, economic Malthusianism (intentional damaging of goods) have limited effects and produce uncontrollable situations, because it is difficult for the moment when disequilibrium occurs to coincide with the moment when interventions are performed.

An analysis of the overproduction crises is important to be grounded on the causes generating such. Economic literature emphasizes that the first overproduction crisis occurred in 1815 and generated severe disturbances on the English market, leading to unemployment and social riots. The causes having generated the said crisis were due to the attitude of the English manufacturers, who incorrectly evaluated the fall of Napoleon's empire and produced enormous stocks destined to export, without evaluating the real absorption possibilities from the internal and continental markets.

Exaggerated loans granted to the newly opened markets in South America generated another significant crisis in 1825, followed by the bankruptcy of some banks, insolvency of some companies, with rebound effects over other countries.

The global nature of the economic processes in the context of modern production, the increased economic exchange between countries defined a worldwide overproduction crisis in 1847-1848, with major disequilibrium effects over the markets. The periodicity of such crises (1857, 1866, 1873, 1882, 1890, 1900) demonstrates that human society has never found solutions which could define a coherent and consistent path for the economic development. The transfer to the stage of free competition, towards the forms of monopoly and imperialism amplified such crises and created the conditions for the First World War to start, which had been preceded by a severe restraint of the production, prices rising, increased unemployment rates and loss of houses.

Such crises deeply affected the economy of all countries, in all its sectors (industry, agriculture, trade, transport).

In the decade between 1921 and 1930 four distinct periods existed:

- The boom following the First World War;
- The reconverting crises in the 1921-1923;
- The growth period between 1923 and 1929;
- The great world economic crises in 1929-1933.

Many times in analyzing this decade, the monetary elements (international debts and payments) are not correlated with the economic elements (protection, commercial exchanges). A number of views exist regarding the causes that led to this major crisis. The classic view places the causes in the fundamental incapacity of the capitalism of self-regulating. We refer here to the analysis of Sismondi, Warlas and Wicksell. The economic contradictions between the various powers in that period, the war distructions, the huge public debt, the high external debt created in the European countries the conditions for major disequilibrium. In the period of the First World War, the economic power of the USA increased, American foreign investments raised from USD 3.5 billion in 1913 to USD 6 billion in 1919. On the other hand, similar English investments decreased during the same time period by almost one fifth.

The British industry did not achieve high productivity indexes compared to its competitors, leading to more expensive exports, more difficult to achieve, and to more difficult to obtain economic recovery. In order to reinstate the economic situation it was necessary for the internal consumerism and for the buying force to be lowered, with unpredictable effects in terms of social conflicts.

In his remarkable paper "A Tract on Monetary Reform", John M. Keynes mentioned that the future economy would be interested in keeping business stability, prices, and using labor force.

The dogma regarding the maintaining of the pound convertibility in gold, actual until the 20s was no longer covered in the after war economic realities. The drastic reduction of exports, the increased unemployment rate, external debts of various debtors affected not only national finances, but also the international financial circuits.

In order to attenuate such disequilibria, a production and international exchanges boom would have been necessary. The American researcher C.P. Kindleberger mentioned that the international economic system had become instable due to England's inability and USA's reticence in creating a balance between three major areas of the socio-economic system:

- Maintaining a market relatively open for merchandise which had not found buyers yet;
- Supplying in a contra-cyclic manner, long term loans;
- Minimizing the depth of the crisis.

While in the period of previous economic crises England had functioned as a regulator factor, in 1929 when the connections between markets were extremely branched out, England did no longer have the power of doing so, and the USA did not want to. Every country tried to defend its own interests by ignoring the interdependencies between the world economies.

A crisis prevention solution would have been to close some external markets grounded on the sad experience in the field of agriculture, where overproduction led to the

decrease of farmers' incomes after the First World War. Another explanation also exists regarding the lack of reaction from the world's large states. The only country where the crisis was visible and became chronic was the Great Britain, while in the other countries it was mostly latent. The accumulation models specific to every capitalist countries worn themselves and the international framework became increasingly troubled with no consecrated international payments system. The situation also aggravated due to the protection measures of the important states on an economical level, leading to limitation of exchanges and expansion of the crisis.

In the 20s the USA protected itself from foreign merchandise and from the immigrants' exodus. A contradiction can be noticed in this period regarding the development level, with was a sustained one, and the one of openings, which was restricted. In the said period in the USA scientific labor organization methods were created (Taylorism), and the "conveyor" work (Fordism). The mergers in those years, specific to the American industry, promoted production rationalizing in its most important aspects, leading to mechanized, standardized, planned-programmed activity, "conveyor" work, a dozen bureaucracy and the society laid on an optimal circuit in terms of decision making efficiency and decision circulating speed, as systemic placement of various departments of technical nature, supply, financial, accountancy.

A new model can be referred to, for achieving and finalizing the value created by such with the growth of mass consumerism based on the increased incomes of a significant part of the workers, with living conditions similar to those of the middle class.

The "conveyor" work model worn out

its possibilities by the end of the third decade because the increased productivity level had reduced its trend and the labor productivity had started to decrease. Because market segments the absorption capacity of which was relied on became oversaturated, the demand decreased dramatically. The agriculture crisis also reduced the markets.

The 1929 crisis does not actually represent the self-regulating capacity of the capitalism, but it is on the contrary its very self-regulating reaction tending to eliminate redundancy from the system. Unfortunately in that period economies continued to produce more than the market demanded.

In 1932 Franklin D. Roosevelt denounced the administrative, obligation based intervention, namely the "Industrial Dictatorship", announcing a new simulative policy, the New Deal, which he designed not as a preconceived program, but little by little, with pragmatism and tenacity, defining a system of private profit and free initiative.

This program aimed at:

- Reorganizing and re-launching the fundamental activity sectors – banks, industry, power and transportation;
- Re-launching the American economy on the world market by giving up the gold etalon and progressive dollar de-valorization compared to gold and based on mutual commercial agreements;
- Achieving a new social compromise by imposing a set of reforms aimed at putting a stop to unemployment rates and diminishing such, increasing real salaries, collective labor contracts in numerous areas;
- Accepting concessions to be made by the employers associations in order

to allow for a better integration of the workers in the consumerism system by permanent cooperation between the government and the business environment;

- Reducing the government intervention in the business environment and stimulation by economic policies of the business environment.

One of the supporters of Keynes economy, the French economist H. Noyelle mentioned in "Utopie liberale, chimere socialiste, economie dirijee" that the solution for saving the economic systems was the "directed economy". Nuances, synthesis, details of this current faced other theories applicable or not in the real economy, and innovating ideas resulted which represented the pillar for neo-Keynesian, neo-liberal theories etc.

Directory theories, if analyzed superficially, could lead to the idea that it is only a step from prices, salaries, production, foreign exchange and commerce control to interventionism.

Nonetheless, a major difference exists between the two theories, because the promoters of the directory theories encourage indirect actions for influencing, attracting and stimulating, which are accepted by enterprisers ensuring some level of equilibrium in using the labor force and income.

John Maynard Keynes theory and Roosevelt's New Deal are no doubt part of the directory beliefs accepting corrective measures in reconstructing economies as catalyzes of such after the world economic crises of 1929-1933 and the Second World War (1938-1945).

It is obvious that the English economist is distancing from the classic and neo-classic theories regarding the rapport between

the achieved production and sold production. Actually, the premise is used that the activity level is not achieved grounded on available production factors, which would minimize the unemployment rate, but on the predictions and information regarding the "effective demand", both in the field of consumerism and in the field of investments.

In Keynes opinion, three tools of concrete action exist which can ease the regulation of the economic system in view of the resulted production volume, of the labor force absorption:

- A monetary policy that could allow for the re-launch of private investments by diminished loans interest;
- Incomes redistribution policy that could encourage consumerism by transfer of resources from groups which tend to make savings (in general large incomes groups) towards groups which tend to consume (in general low incomes groups); this sort of policy can be achieved by collective tax and social expenses;
- A policy for re-launching public works by budgetary deficits which could lead to increased private demand by also using the vector of public expenses.

The Second World War imposed the mobilization of resources to some direction, which subsequently led to directory measures, necessary in order to rebuild and normalize the economy of the affected countries. In his paper "Utilizarea deplină a mării de lucru într-o societate liberă" published in 1944, Beaveridge mentioned the errors leading to three major malfunctions of the society: misery, illness, unemployment.

The American governments in the 60s (Kennedy, Johnson), supported by Keynesian counselors (P.A. Samuelson, W.A. Heller, J. Tobin etc) resized the Keynesian message, while the 70s defined a new economic reality: stagflation – generated by the coexistence of inflation and unemployment.

The current crisis is a crisis of the existent market system.

The credibility of the states' institutions has decreased, and the processes of monitoring, control and evaluation of the companies' performances have been many times poorly performed, leading to confusion and unpredictable reactions from social-economical entities. Excessive encouragement of consumerism is no longer the miraculous solution for economic growth and development.

The monetary economy has too long forged the real economy, and stock exchanges are only seldom real barometers of economic performance, becoming rather contextual tools of the political groups.

Overproduction, the cult for greed, the severe environmental problems, the lack of resources, the labor force becoming worn out, the lack of real motivation, encouragement of monopoly, the creation of exclusive and exclusivist performance and production centers and the "specialization" of a wide portion of the world into exclusive consumerism are elements demonstrating that the issue is not actually that of no solutions, but rather that of no will of implementing real solutions, which would be favorable to all. The large decision markers are favoring the international elites.

The world of the future will not survive unless the statements on economic, social, political, cultural equilibrium become realities.

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