'tudies in the Surplus Approach, 1990, vol IV, os 1-2). All share the common feature that ıvestments among industries are functions of profitability differentials. However, they differ n several important respects. In most instances, narket prices are disequilibrium prices resulting rom their progressive adjustment as a function of disequilibria between supply and demand. Nonetheless, some models adopt a market clearing assumption (assuming obviously that demands are functions of prices). It is also possible to introduce a direct reaction to disequilibria between supply and demand, assuming that firms modify the quantity produced (in addition to the adjustment of prices).

For example, if supply is larger than demand, firms diminish their output, independently of the indirect effects of diminished prices on profit rates, and of profit rates on capital stocks (i.e. on productive capacity). This mechanism is very realistic and efficient *vis-à-vis* stability; it draws an interesting link between the classical and Keynesian analyses. Models also differ in more technical respects, such as the choice between discrete or continuous time, the presence of fixed capital (and the consideration of capacity utilization rates), the explicit treatment of inventories, the number of commodities or capitalists, linear or nonlinear reactions and so on.

Shocks and endogenous processes

The difference between convergence and gravitation corresponds to the possible occurrence of shocks. These shocks can be considered exogenous, but in more general frameworks they mirror other processes which can be treated endogenously. This is the case when structural change is embodied in the analysis (concerning wages, technology and so on). Such transformations may or may not affect the equilibrium values of the variables (prices of production and outputs). If they do not, the problem is that of gravitation around a given long-term equilibrium. If they do, the issue is whether the value of the variables will follow an equilibrium constantly moving from one period to the next. Classical economists, in particular Marx, who refers to the heterogeneity of capital among firms due to technical change, were aware of this problem. It can be treated formally in a more sophisticated framework (see Duménil and Lévy 1995).

See also:

classical political economy; competition in Sraffian political economy; equilibrium, disequilibrium and non-equilibrium; price theory, Sraffian; traverse

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Great Depression

The collapse of both the 1920s-era prosperity of the United States and the shakier growth of Germany heralded the worldwide Great Depression of the 1930s, as primary-product producers went bankrupt, trade wars flared and the banking system disintegrated. Because

this series of events shook popular faith in capitalism's ability to "deliver the goods," economic historians have dedicated much research time to understanding it. In this research, most emphasis has been on either the US economy's collapse (as with Romer 1990) or the instability of the world economy (Temin 1989).

Exogenous shocks and policy failures

The dominant neoclassical view emphasizes the importance of exogenous shocks, to what is assumed to be an essentially stable system, in causing the 1929–33 collapse. Though some, like Peter Temin (1976) and Christina Romer (1990), stress the largely unexplained fall of consumption or the exogenous stock-market crash of 1929 as a shock, policy errors receive the most attention. Milton Friedman and Anna Schwartz (1965), for example, blame a "Great Contraction" of the US money supply. Others (including Romer) emphasize the US government's efforts to balance its budget in a recession, further cutting aggregate demand. Even the "international Keynesians" who stress the structural instability of the world economy in the late 1920s have this emphasis on misguided policy. While Charles Kindleberger (1986) argues that the US should have lived up to its responsibility as leader of world capitalism to stabilize the system, Temin (1989) blames the deflationary bias inherent in the dominant policy regime of the time (including the gold standard).

Underconsumptionist explanation

Leftist economists stress the inherent instability of the US and world economies of the late 1920s. Hardly any emphasize a rising organic composition of capital or a high employment profit squeeze, since there is little evidence for those hypotheses. Instead, underconsumption tendencies are stressed. Paul Baran and Paul Sweezy (1966) see underconsumption-induced depression as the normal state of MONOPOLY CAPITALISM; it was only the First World War and the 1920s automobilization of the US economy that delayed its onset. On the other hand, the regulation school (of Michel Aglietta (1979) and others) see a structural disjunction between the rising importance of mass production and the limited development of mass consumption. The depression was highly likely in the absence of a "Fordist mode of regulation."

Overproduction, underconsumption and vulnerability

James Devine (1983, 1994) attempts to synthesize the empirically – and logically – valid parts of all of these different perspectives, while reconciling underconsumption tendencies with Marx's view that capitalism tends to expand aggressively independently of the constraints set by consumer demand. He agrees with Marx's vision of capitalist accumulation, seeing competition and class antagonism as driving the system forward to expand too far, to overaccumulate, a process allowed by the credit system. The form that this overaccumulation takes depends on the institutional context.

While "labor scarcity" in the late-1960s USA implied a profit squeeze, the late-1920s "labor abundance" encouraged terms of "overinvestment relative to consumption." Rising productivity and stagnant wages imply stagnant workers' consumption but rising profit rates, as seen in the corporate sector in the late-1920s. High profit rates are hard to sustain given low workers' demand because both investment and capitalist luxury spending (the other domestic private sources of demand) tend to be more volatile than workers' consumption. In addition, fixed investment creates new capacity that implies the need for rising investment and capitalist luxury consumption. In this view, the US economy became increasingly prone to collapse as the 1920s progressed. This meant that prosperity was more vulnerable to "shocks," such as the stock market crash, which itself can be explained in terms of the late-1920s political economy, including the Minskian euphoric economy (see FINANCIAL INSTABILITY HYPOTHESIS).

After the collapse occurred, when unused

capacity, excessive debt, and pessimistic expectations blocked further ACCUMULATION, capitalist competition induced falling wages and falling consumption, resulting in an "underconsumption trap" that encouraged lasting stagnation.

Worldwide nature of the crisis

Of course, the USA is not the whole world economy. Attention to the US economy is justified by the relative stagnation of most of the rest of the industrial world and almost all of primary production (including in the USA) after the First World War. Much of the prosperity that did occur in the 1920s in countries such as Germany was dependent on US growth, so that the USA was the capstone of the world arch. The slow growth of the world also made it difficult for the USA to preserve rising profit rates by boosting net exports.

The worldwide nature of the stagnation can be explained by the nature of capitalism at the time, especially the intense contention among nation-states. The inter-imperialist rivalry that spurred the First World War also stimulated the creeping protectionism of the 1920s which turned into trade wars in the 1930s, partly as a result of the US shift toward increased protection in 1930.

The rampant "policy failures" of the inter-war period were not merely a matter of ignorance of economics, but results of the world political economy. Given the incomplete rise of the USA to super power status, and the large size of that country's primary-producing sector in the 1920s, the USA could not shoulder its "Kindlebergian responsibilities" until after the Second World War. The deflationary policy consensus that Temin describes can be explained as part of the post-First World War capitalist offensive that aimed to end rampant inflation, reverse workers' gains and restore depressed profit rates. Given the ascendancy of this movement, it is no surprise that policy makers were not interested in reversing the 1929–33 collapse until it was too late, as Epstein and Ferguson (1984) show.

See also:

business cycle theories; long waves of economic growth and development; regulation approach; social structures of accumulation

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Green Party

Profound and overlapping changes in personal values, societies and political economies during