

The early reception of Rosa Luxemburg's theory of imperialism

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Abstract

This article deals with the reception of Rosa Luxemburg's *The Accumulation of Capital: A Contribution to the Economic Explanation of Imperialism* in the Second International before the start of the First World War. Our analysis shows that, if the condemnation of *The Accumulation of Capital* by the political right and centre was almost unanimous, its acceptance by the left was far from universal. In fact, both Lenin and Pannekoek rejected Luxemburg's theory, adopting instead the economic analysis of an important spokesman of the centre, the Austro-Marxist Rudolf Hilferding. Our work concludes by analysing the reasons for those theoretical differences.

Keywords

Imperialism, accumulation of capital, Rosa Luxemburg

The Second International and the theory of imperialism

According to the historians Richard Koebner and Helmut Dan Schmidt, the word *impérialisme* began to be used in the second half of the 19th century as a neologism along with the word *bonapartisme*, to indicate the diverse forms in which the Second French Empire of Louis Napoleon (1852–70) maintained its rule over France (Koebner and Schmidt 1965: 1). Marx also used the term *Imperialismus* to denote the political regime of France in his book, *The Eighteenth Brumaire of Louis Bonaparte* (Marx 1852). Thus,

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the word did not correspond to its modern meaning, which was not developed explicitly in Marx and Engels' work.

Given the role of the United Kingdom as the dominant imperialist power in the final part of the 19th century, it is not strange that one of the first registered uses of the word in the modern sense, in socialist circles, should have been in the article by Ernest Belfort Bax, 'Imperialism vs. socialism', published in February 1885 in *The Commonwealth*, the journal of the Socialist League. Bax's argument was that imperialism resulted from the search for external markets in which to dispose of the surplus created by overproduction in the old capitalist countries (Bax 1885). Bax's position on the colonial question was extreme for his time, not only because he rejected any kind of colonialism, but also because of his stand in defence of armed struggle by the colonised nations against their European oppressors (Bax 1896a). It is, therefore, not by chance that Bax was the first to attack the revision of Marxist theory by Eduard Bernstein, starting the polemic known as the 'revisionist controversy' that resulted in a split among Marxists all over the world, between revisionist and 'orthodox' Marxists (Bax 1896b).

The debate over imperialism in the German SPD

The debate over imperialism as such – as different from the former debates on *Kolonialpolitik* – first appeared in the ranks of the SPD (Sozialdemokratische Partei Deutschlands) as a result of two historical events: the Spanish-American war in 1898, and the Second Boer War (1899-1902).¹ In September 1900, the SPD held a congress in the city of Mainz, which adopted a resolution condemning German world-policy (*Weltpolitik*), opposing the creation of a German protectorate in Kiautschou (Jiaozhou) and the repression of the Boxer Rebellion by the Western powers. At that congress, Rosa Luxemburg characterised the events in China as 'a bloody war of united capitalist Europe against Asia', and a 'turning point' in world history (Luxemburg 1972, Vol. 1/1: 800). The Congress of the Socialist International, held in Paris a few days later also adopted a resolution on colonial policy, written by Rosa Luxemburg, which condemned 'imperialism, its necessary consequence' because 'it incites chauvinism in every country', forcing them to make 'ever growing payments to support militarism'.²

In 1910, a split took place among the 'orthodox' Marxists in the SPD, between a centre wing led by Karl Kautsky, and a left wing that gradually grouped around Rosa Luxemburg. The reason for the split was the debate over the mass strike, a form of direct action that was growingly rejected by the Kautskyists in favour of parliamentary struggle.³ Although the issue of imperialism was not the original reason for the polemic, in the framework of this debate Kautsky began to argue that imperialism was not the result of an economic need inherent to capitalism at certain stage of its development, but a contingent policy adopted by the bourgeoisie in a certain historical context marked by colonial rivalries (a policy that was, thus, reversible). Kautsky drew from this analysis a reformist political conclusion: that it was necessary to adopt a course of action that would convince the bourgeois parties of the advisability of adopting a foreign policy based on disarmament and on diplomatic agreements, to which were occasionally added other elements such as arbitration courts for international disputes (Ratz 1966). By contrast, the revolutionary left began to argue that imperialism was a necessary and unavoidable stage in the evolution of capitalism. Instead of advocating a utopian policy of

disarmament, it was necessary to struggle for the replacement of permanent armies by defensive militias, and, in the end, of capitalism by a socialist world order.⁴

In September 1912, the annual Congress of the SPD was celebrated at Chemnitz, in the context of the growing international tensions that preceded the start of the First World War. A debate on imperialism ensued, culminating in the adoption of a resolution written by Hugo Haase, co-chairman of the party and a prominent member of the centre wing. Haase condemned imperialism as the striving 'to acquire *new spheres of power and influence* in other countries, especially the *annexation* of overseas countries to one's own state' (Day and Gaido, 2012: 627). Haase strongly believed that the movement for peace could succeed. Capitalism was responsible for imperialism, but it also produced counter-tendencies, amongst which he mentioned international cartels, the economic interdependence of the European nations, and the growing strength of the socialist parties, all of which suggested the possibility of international agreements to restrict the arms race.⁵ The historian Carl Schorske resumed the results of the Chemnitz Congress as a clear triumph 'of the centre', whose policy 'was anti-war, but not revolutionary – an extension of Social-Democratic domestic policy into the sphere of foreign affairs' (Schorske 1970: 264).

Curiously, both Rosa Luxemburg and Karl Kautsky were absent at Chemnitz, which meant that none of the leading theoreticians of the centre and left wings of the party took part in the debate over imperialism. In the following year, Rosa Luxemburg published her book *The Accumulation of Capital: A Contribution to the Economic Explanation of Imperialism*.⁶ Since her arguments were based on an analysis (and a conscious revision) of Marx's theory of accumulation, we will first make some remarks on that theory in order to better grasp her main point.

Marx's theory of accumulation

In the second volume of *Capital* (Marx 1893), Marx introduces the question of the *natural form* of the product in the theoretical investigation of capitalist economy, in order to analyse the process of reproduction of *social* capital (as opposed to individual capital, which had been the subject of analysis in the first volume – see Marx 1893). Marx divided all the production of capitalist society into two sectors: department I, producing means of production, and department II, which produces articles of consumption. This distinction is not arbitrary, but follows from the fundamental theoretical presupposition of historical materialism: namely, that historical evolution is determined by the development of the productive forces and by the growth of the productivity of labour, a phenomenon that assumes under capitalism the form of a growth in constant capital (i.e. in the means of production created by department I).

Marx starts by analysing the conditions for equilibrium in the exchange between both departments in conditions of simple reproduction, i.e. without accumulation. He comes to the conclusion that in simple reproduction, the sum of variable capital (invested in wages) and surplus value in sector I ought to be equal to the constant capital (means of production) in department II.

Marx then proceeds to study the conditions for expanded reproduction (accumulation). His starting point is that accumulation requires a surplus of means of production, which in turn requires the conversion of part of the surplus value obtained by the capitalists into

capital. In other words, under the assumptions of accumulation, the increase in value of the means of production exceeds the increase in value of the consumer goods: department I has to grow faster than department II. Productive consumption (consumption of means of production by capitalists) therefore grows more quickly than does the individual consumption of consumer goods. This progressive increase in productive consumption is just an expression, in terms of value, of the development of productive forces. Capitalist society employs an increasing proportion of the annual labour available in the production of means of production, which cannot be resolved into the categories of income (wages and the different forms of surplus value), but can only function as capital. Marx draws a series of diagrams showing that an equilibrium between the two major departments of social production is possible under the assumptions of accumulation.

Rosa Luxemburg's theory of imperialism

In her book *The Accumulation of Capital*, Rosa Luxemburg asks herself, regarding Marx's schemes of expanded reproduction: where does the increase in demand required to absorb the goods in which the accumulated part of surplus value is embodied come from? Her central argument is based on a revision of Marx's accumulation schemes. According to Luxemburg, 'From the capitalist point of view it is absurd to produce more consumer good in order to maintain more workers, and to turn out more means of production merely to keep this surplus of workers occupied' (Luxemburg 1963: 132). Her criticism of Marx's economic theory revolves around the idea that the realisation of surplus value (more specifically, of that part of the surplus value not destined to the personal consumption of the capitalists, but to reinvestment), and hence the accumulation of capital, are impossible under 'pure' capitalism, i.e. in a society in which all the non-capitalist strata of the population, particularly the old middle class of peasants and artisans, no longer exist. In her own words, 'The realization of surplus value is in fact the vital question of capitalist accumulation ... The realization of surplus value requires as its first condition a circle of customers outside of capitalist society.'⁷ The conclusion Luxemburg draws from her analysis is that 'the immediate and vital conditions for capital and its accumulation is the existence of non-capitalist buyers of the surplus value', because that part of the surplus value which is earmarked for capitalisation must be realised outside the capitalist market (Luxemburg 1963: 336-337). Based on this reasoning, Rosa Luxemburg offers the following definition of imperialism and its historical tendency:

Imperialism is the political expression of the accumulation of capital in its competitive struggle for what remains still open of the non-capitalist environment. Still the largest part of the world in terms of geography, this remaining field for the expansion of capital is yet insignificant as against the high level of development already attained by the productive forces of capital ... (with) their increasingly severe competition in acquiring non-capitalist areas, imperialism grows in lawlessness and violence ... But the more violently, ruthlessly and thoroughly imperialism brings about the decline of non-capitalist civilisations, the more rapidly it cuts the very ground from under the feet of capitalist accumulation ... This is not to say that capitalist development must be actually driven to this extreme: the mere tendency towards imperialism of itself takes forms which make the final phase of capitalism a period of catastrophe. (Luxemburg 1963: 446)

If Rudolf Hilferding's *Finance Capital* received almost universal praise when it was published in 1910,⁸ the reviews of *The Accumulation of Capital* were almost universally negative, with the exception of those written by Franz Mehring and Julian Marchlewski (Karski), two members of the small fraction of the SPD left grouped around the newspaper *Die Internationale* in Berlin – the group that would later become the Spartacus League.

In his review, Mehring defended Luxemburg's thesis, arguing that 'The objection that imperialism is not an internal necessity of the capitalist mode of production but a fortuitous fact amounts to a repudiation of the Marxist world-view as a whole.' (Mehring 1913: 751). His political conclusion deserves to be emphasised: in the opinion of the entire left wing, imperialism was an internal need of the capitalist mode of production, and the theoretical debate between its representatives revolved around the economic mechanism of this need.

Criticisms from the right

Max Schippel, a writer belonging to the right wing of the SPD, mocked Luxemburg's work in the pages of the revisionist theoretical organ, *Sozialistische Monatshefte*, comparing her analysis with the diagnosis of the quack doctor in Molière's *Le malade imaginaire*. Despite its supposedly 'incurable state', Schippel argued, capitalism stood a good chance of surviving – 'or maybe it's just a case, as in Molière's work, of an imaginary disease' (Schippel 1913: 148). These sarcastic words were penned by a theoretician of a revisionist current that a contemporary French critic, Charles Andler, aptly called 'imperialist socialism in contemporary Germany' (Andler 1918: 124-5). Schippel – 'the good Prussian' – openly supported Germany's armed intervention in colonial countries, as well as the transformation of part of Morocco into a German settlement colony, and the subjection of the natives by force.

A more sober assessment was written after the war had started by the main economist of the revisionist current, Conrad Schmidt, a former correspondent of Friedrich Engels. According to Luxemburg's thesis, in the absence of non-capitalist buyers for the goods in which the accumulated part of the surplus value is materialised, capitalism would 'exhibit a tendency to ever-growing overproduction of unsalable commodities' (Schmidt 1915: 260). Schmidt categorically rejected the idea of the impossibility of realising the accumulated part of surplus value in an 'isolated capitalist economy, or, which is the same, in a world economy organized on a completely capitalist basis [*eine durchgängig kapitalistisch organisierte Weltwirtschaft*]' (Schmidt 1915: 261). Schmidt based his critique on an artificial counter-position between what he called the '*Katastrophenperspektive*' developed by Marx in the *Communist Manifesto*, and capitalism's tendency to balance supply and demand, as allegedly developed by the 'mature' Marx in the third section of the second volume of *Capital* (Schmidt 1915: 257-8). Schmidt drew from his analysis conclusions that, following Rosdolsky's nomenclature, might be ascribed to the neo-harmonicist interpretation of Marx's economic doctrines (Rosdolsky, 2004: 497).

A centrist vision: Gustav Eckstein

Schmidt recommended the 'very detailed' critique of Luxemburg's work by Gustav Eckstein published in *Vorwärts*, the central organ of the SPD (Schmidt 1915: 260).

Eckstein was an important member of the centre, who had defended the centrist position on disarmament in the polemic with the left (Eckstein 1912).

Eckstein believed that Luxemburg's criticism of the expanded reproduction schemes developed by Marx in *Capital* was fundamentally flawed. According to Eckstein, in those schemes Marx analysed the issue of interdependence between production and consumption, at first studying it in its simplest form, and then introducing variables – such as accumulation – which made the diagrams resemble more and more the actual functioning of the economy. Though in his reproduction schemes Marx demonstrates the possibility of an equilibrium between production and consumption, and between the two major departments of production (producing means of production and consumer goods), the purpose of his analysis was not at all apologetic; indeed quite the opposite:

The study of those equilibrium-conditions in production made it possible for the first time to understand the disturbances in that equilibrium, much as physicians must first thoroughly research the processes in healthy bodies before they can reach an understanding of illnesses. Marx's research on the laws of simple and expanded reproduction, on the mutual dependence of both departments, on the reciprocal exchange of particular groups of values and products, and, finally, on the money-transactions that mediate this exchange, have enabled us to get to grips with the problem of crisis on which the whole of bourgeois economics has broken its teeth in vain. (Eckstein 1913: 702)

Because of the unplanned character of capitalist production, the 'market, that is to say the social demand' for the different kinds of products is an unknown factor, which can only be guessed, and the wildest speculation presides over production:

Marx's diagrams show how capitalist production must proceed if equilibrium is to be maintained, and how great is the actual social need for different kinds of products. But production is managed only with a view to the highest possible profit, thus deviating quite significantly from social needs. The adjustment takes place from time to time, violently, in the form of crises. (Eckstein 1913: 703)

Eckstein also criticised Luxemburg for trying to introduce in the expanded reproduction scheme the problem of production of metallic money (bullion). Luxemburg had criticised Marx's assimilation of metallic money to the means of production in *Capital*, and the assumption that money is always available in the proportions required for exchange, whether in the form of hoard or in the form of credit. Luxemburg's attempt to incorporate the production of money into the analysis as a third department of social production was sarcastically dismissed by Eckstein:

In Marx's diagrams, there are always only two rows, and whoever has taken up their study will agree that their mutual intertwining is often very complicated and difficult enough. In the model constructed by Comrade Luxemburg, the difficulty is not only very great; it is insuperable. (Eckstein 1913: 707)

According to Eckstein, the ultimate reason for Luxemburg's errors was that she assumed that Marx's models 'are based on the requirement of an equal rate of accumulation, i.e., she assumes that accumulation always proceeds equally in both main departments of

social production. But that assumption is quite arbitrary and contradicts the facts' (Eckstein 1913: 708). The real law of the equalisation of the rates of profit stood 'in complete contradiction to the fictitious law of equal accumulation' in departments I and II (Eckstein 1913: 698).

Regarding Luxemburg's theory of imperialism, Eckstein attacked the idea that the surplus production of European capitalists was destined to 'the small peasants in Europe and China,' as well as to 'the blacks in Central Africa'. According to Eckstein, this made no sense, because Luxemburg herself had shown that those countries and strata of the population were brutally exploited by capitalism. But since 'exploitation consists of the fact that someone takes away from the exploited more value than he gives to them,' the accumulated surplus could not be 'disposed of by selling among non-capitalist peoples and classes that give a much greater value in exchange' (Eckstein 1913: 711-12).

Eckstein ends his review by saying that Luxemburg's work 'contains nothing new. Generally speaking, the book has so little to do with the new phenomena of today's pulsating economic life that it could have been written just as well twenty or more years ago' (Eckstein 1913: 712). Like Conrad Schmidt, he concluded by dismissing Luxemburg's 'catastrophism': 'Together with the theoretical foundations, fall the practical conclusions, above all the theory of catastrophes [*Katastrophentheorie*], which Comrade Luxemburg constructed on the basis of her doctrine concerning the necessity of non-capitalist consumers' (Eckstein 1913: 712).

We thus find a coincidence among the right-wing and centrist critics in their attack on Luxemburg's catastrophism, which fulfilled the political function of dismissing the possibility of a systemic crisis of capitalism owing to imperialist competition – just when capitalism was about to experience its biggest crisis so far, due to the outbreak of the First World War. Luxemburg commented on Eckstein's article, 'It is characteristic of the domination of the two central organs of Social Democracy by the "Austro-Marxist" school of epigones that such a 'review' could even appear in *Vorwärts*' (Luxemburg 1921: 87-89, note, cited in Day and Gaido 2012: 699).

The centrist perspective developed: Otto Bauer

The Austro-Marxist school produced the most extensive and ambitious critique of Luxemburg's work, written by the main theoretician of Austrian Social Democracy, Otto Bauer, and published in the theoretical journal of the German SPD *Die Neue Zeit* (Bauer 1913). This was the analysis that most infuriated Rosa Luxemburg, who dedicated four of the six chapters of her *Anti-Critique*, subtitled *What the Epigones Have Done with Marx's Theory*, to answering it (Luxemburg 1921). Bauer summarised Luxemburg's argument as follows:

Rosa Luxemburg seizes upon the old hypothesis of 'third persons' [*dritten Personen*]. She believes that the part of surplus-value which is to be accumulated cannot be realised at all unless capitalist production can sell its excess values outside its own sphere, to non-capitalistically producing petit bourgeois and small peasants. This explains the pressure of capital for the extension of its markets. Hence the effort to destroy natural economy, to transform simple commodity production everywhere into capitalist production, to make the whole earth into a market area for capitalist industry: hence imperialism! But once the market area can be expanded no further, capitalism can no longer sell a large part of its commodities. It suffocates

in the wealth which it has produced. Its last hour approaches. This is the fundamental idea in Comrade Luxemburg's work. (Bauer 1913: 723)

The focus of Bauer's criticism is the relationship between capital accumulation and demographic growth. While Eckstein denied that there was an error in Marx's schemes of expanded reproduction, Bauer argued that 'the numbers which Marx uses in the second volume of *Capital* in his presentation of the reproduction process are arbitrarily selected and not without contradictions' (Bauer 1913: 728). This observation is not innocent, because Bauer wanted to provide not only a critique of Luxemburg's theory of accumulation but also a demographic theory of business cycles (in 1904, he had already published an article on the theory of crises along the same lines; see Bauer 1904). He therefore drew up a new series of diagrams, which incorporated population growth as a new variable. His argument was this: every society, even pre-capitalist ones, needs to expand production in order to meet the growing demand of an expanding population. In the case of capitalism, this is done through a process of capital accumulation. Each year, the capitalists take a portion of the surplus value and reinvest it in consumption articles that will be used by the new population, and in more means of production, which will be used by the new workers. The central question is that of '*how the accumulation of capital must take place in order that it may remain in equilibrium with population-growth*' (Bauer 1913: 724, emphasis in the original). In other words, Bauer explains the accumulation process in terms of demographic growth: according to his theory, population growth is the independent variable to which the rate of accumulation must adapt, and periodic crises occur because the rate of accumulation either exceeds the rate of population growth or lags behind it.

As for Luxemburg's argument about the impossibility of realizing the commodities in which the accumulated part of surplus value is materialised in the framework of a purely capitalist economy, Bauer asks:

What sort of commodities are they? They are the very means of production which the capitalists need to expand their productive capacity, and the very consumer goods which are required to feed the growth in the work-force. If these commodities were to be ejected from the capitalist world, production on an extended scale in the following year would be altogether impossible; there would be neither the necessary means of production for the extension of productive capacity nor the food supplies required to feed an increased work force. The withdrawal of this part of the surplus-product from the capitalist market would not, as Rosa Luxemburg believes, make accumulation possible; on the contrary, it would make any accumulation impossible. (Bauer 1913: 736)

The key to understanding accumulation was, according to Bauer, to study the relationship between demographic and economic growth under capitalism. The problem, as Bauer saw it, was that under capitalism the necessary adjustments were made spontaneously, driven by the pursuit of individual benefits by individual capitalists, so that any equilibrium between population growth and accumulation was unstable. However, the central purpose of his essay was to show that 'accumulation takes place without disturbance as long as it maintains a definite quantitative relationship on the one hand with population-growth, and on the other with the development of productivity which

expresses itself in the progress towards a higher organic composition of capital [i.e. in the growth of constant vis-à-vis variable capital]' (Bauer 1913: 741).

Of course, there will always be, according to Bauer, spontaneous deviations of the proportions required for maintaining an equilibrium between the rate of accumulation and the rate of population growth. In some cases, there will be *subaccumulation*: variable capital (invested in wages) will grow too slowly, generating unemployment and the emergence of an industrial reserve army. At other times there will be *overaccumulation*, if variable capital grows too quickly vis-à-vis constant capital. But in both cases, Bauer thought, accumulation would ultimately return to equilibrium conditions. In cases of *subaccumulation*, falling wages would shift the distribution of social income in favour of the capitalists, which would in turn increase the *social rate of accumulation* – defined as 'the relationship between the accumulated part of surplus value and the total value product [*gesamten Wertprodukt*]' (i.e. variable capital plus surplus value) – until, as a result of productive investment, variable capital grows again at the same rate as the work force. In cases of *overaccumulation*, increased wages and a fall in profits would precipitate a crisis as a means of restoring the necessary quantitative relations between accumulation and population growth. Bauer offered the following demographic theory of business cycles:

the tendency for accumulation to adjust to population-growth is apparent in the industrial cycle. Prosperity is overaccumulation, which destroys itself in the crisis. The ensuing depression is a time of underaccumulation which also brings itself to an end, inasmuch as the depression itself produces the conditions for renewed prosperity. The periodic alternation of prosperity, crisis, and depression is the empirical expression of the fact that the mechanism of the capitalist mode of production automatically generates overaccumulation and underaccumulation, with the accumulation of capital adjusting again and again to the growth of population. (Bauer 1913: 740)

Bauer even cites a phrase from Marx's *Theories of Surplus Value* in support of his thesis: 'An increasing population appears to be the basis of accumulation as a continuous process' (Bauer 1913: 741). This stress on the demographic foundations of the accumulation process seems to give a materialistic and 'orthodox' character to Bauer's analysis, but in reality his population theory of the business cycle is a *revision* of Marxist economic theory no less flagrant than Luxemburg's theory of accumulation, and certainly less honest, because it was not openly proclaimed as such.

Instead of postulating a gradual adjustment between accumulation and population growth, Marx considered the secular expansion of the *industrial reserve army* to be the basis of the economic cycle, marked by alternating periods of prosperity and acute crisis. Bauer, on the contrary, stated that, in the ascendant phase of the economic cycle, 'the industrial reserve army is absorbed and equilibrium between accumulation and population growth is restored' (Bauer 1913: 738). At this point, i.e. given a state of equilibrium between accumulation and demographic growth, there is no unemployment, until the arrival of over-accumulation and the 'corrective' crisis. Bauer himself feels the absurdity of this argument, and defends himself in advance against the charge of beautifying the mechanism of the capitalist system, saying: 'This formulation cannot be interpreted as an apology for capitalism' (Bauer 1913: 741).

The demographic theory of business cycles is the basis upon which Bauer addresses the explanation of imperialism. While Luxemburg considers accumulation impossible in an isolated capitalist society, Bauer considers it 'possible and necessary.' The part of the surplus product in which is embodied the accumulated surplus value cannot be sold to the peasants and the petty bourgeoisie of the colonies, because it is necessary in the capitalist countries in order to expand the productive apparatus. But Bauer concedes that 'a kernel of truth is concealed in the false explanation. While accumulation in an isolated capitalist society is not impossible, it is nevertheless confined within limits. Imperialism does in fact serve to widen these limits' (Bauer 1913: 742). Imperialism extends the limits to the accumulation of capital by destroying pre-capitalist economic forms (thus generating new wage workers), favours the growth of branches of capital with a higher organic composition, provides capital with material elements of production from outside its domestic market and therefore powerfully accelerates the development of the productive forces. Finally, imperialism provides a reserve market when conditions of over-accumulation generate goods that are difficult or impossible to sell in the home market, thus facilitating the overcoming of crises. Bauer asserts, therefore, that there is a link between the accumulation of capital and the expansion of capitalism into non-capitalist areas, but does not consider this expansion a precondition for accumulation. In his opinion, 'capitalism is conceivable even without expansion' (Bauer 1913: 743).

Bauer concludes his review with the following words:

Capitalism will not founder on the mechanical impossibility of realising surplus-value. It will succumb to the indignation to which it drives the masses. Capitalism will break down, not when the last peasant and the last petit bourgeois on the entire earth are converted into wage-labourers, so that no extra market is open to capitalism. It will be brought down much sooner, by the growing 'indignation of the working class, constantly increasing, schooled, united, and organised by the mechanism of the capitalist production process itself'. (Bauer 1913: 743)

If, as pointed out by Eckstein, Luxemburg's book could have been written decades earlier and was unable to explain the emergence of modern imperialism in the late-19th century, Bauer's demographic theory of business cycles was even more atemporal and unable to explain the historical specificity of imperialism.

What many of the positions of the centre and right wings had in common was the idea that imperialism was not a *necessary product* of the capitalist system, but a particular *policy* that could be modified. Luxemburg's book was an attempt to provide a theory that would unify the left wing of social democracy around the opposite idea, taking the very mechanism of the capitalist economy as the source of imperialism and drawing from this analysis the conclusion that the only way to combat imperialism was to wage a revolutionary struggle against capitalism itself. However, the reaction of the theoreticians from the left wing was not what she had expected.

The reception on the left: Anton Pannekoek's analysis

One of the most critical reviews of Rosa Luxemburg's book was written, paradoxically, by one of her closest comrades-in-arms: the Dutch Marxist of the 'Tribunist' current (so called because of the name of their theoretical journal *De Tribune*), Anton Pannekoek (1873-1960).⁹

Like Bauer, Pannekoek started by analysing Marx's expanded reproduction schemes; asking, first of all, if there really was a problem with them, as Luxemburg said. The diagrams show an increase in the production of both departments that is absorbed (i.e. purchased) by the capitalists and workers themselves, without resorting to non-capitalist 'third parties'. According to Pannekoek, there is actually no unresolved theoretical problem, and we don't need to look for any external source of demand.

What she calls an absurdity from the capitalist point of view because it would represent an aimless circular motion – to produce more and more means of consumption in order to feed more workers, who would produce more and more means of production that serve for the production of those means of consumption – only appears to be absurd because the decisive factor was left out of consideration. The goal of producing more and more is to extract and accumulate more and more surplus-value, but those accumulated masses of capital can only fulfil their goal of producing new surplus-value by being thrown again and again into the whirlpool of production. The self-valorisation of capital in the creation of profit, the transformation of profit into new capital, is the driving force giving sense and a goal to that alleged absurdity: the apparently aimless, always expanding circuit of production. (Pannekoek 1913: 683)

A different problem, also raised by Luxemburg, is the correspondence between the diagrams and the reality of the capitalist system. Pannekoek responds by saying that the diagrams simply follow the method of generating abstract and simple examples that allow the basic conditions of any phenomenon to operate without interference. This is the essence of Marx's method, where the concrete emerges by adding to the abstract models a greater number of determinations (Pannekoek 1913: 684).

Luxemburg had objected that Marx's diagrams did not include increasing productivity as a variable. She then offered an example in which the ratio between constant and variable capital grew gradually as a result of technical progress, and the numbers did not fit together (Luxemburg 1963: 337). To refute this claim, Pannekoek gave an example of a diagram that incorporated increasing productivity and maintained the equilibrium conditions between the two departments, which absorbed each other's product, thus realising the product entirely (Pannekoek 1913: 685). A contradiction could certainly develop between the production of surplus value and its realisation, but 'crises do not prove that the diagram of enlarged reproduction does not correspond to reality; on the contrary, the crises themselves must be explained on the basis of this diagram and by means of additional factors' (Pannekoek 1913: 687).

After this devastating critique of the foundations of Luxemburg's book, Pannekoek analyses its consequences for her analysis of imperialism. For Rosa Luxemburg, the impossibility of realising the part of surplus value destined to accumulation in a pure capitalist economy is the cause of the tendency to look for its realisation among 'third persons', i.e. in markets of non-capitalist buyers. And where these markets do not exist, capitalists must create them. Thus the last chapter of Luxemburg's book explains the growing interference of the European powers in the other continents through the fight against natural economy. Although Pannekoek considered Luxemburg's theoretical foundations mistaken, he argues that her explanation is not entirely wrong. The existence of a commodity exchange with non-capitalist economic formations and classes is a fact, because capitalism has developed from a non-capitalist milieu, although not a necessity without which capitalism could not exist.

Since the existence of non-capitalist buyers is a fact, the expansion of capitalism at the same time requires an expansion of non-capitalist production with which it exchanges its products. Therefore, their area must be constantly increased, often forcibly; here lies the real cause of the struggle against natural economy. It is not fortuitous; it has an economic cause, even if it is entirely different from the one Comrade Luxemburg thought she found. And that is why her detailed description of the praxis of capitalist expansion is not a superfluous presentation of casual events. (Pannekoek 1913: 691)

At the same time, Pannekoek believed that Luxemburg made the mistake of assimilating the colonialism of the 17th and 18th centuries, for example, with modern imperialism. Capital always exhibited a tendency to seek new markets, but the point was that 'imperialism is a modern phenomenon that is not simply identical with the capitalist world policy of the whole nineteenth century' (Pannekoek 1913: 692). What should be investigated are 'the peculiarities characterising capital's modern world policy.' These are summarised by Pannekoek as follows:

We would, therefore, like to denote by imperialism the striving of modern capitalist powers to bring the largest possible areas of foreign continents directly or indirectly under their political control and to combine them into a world empire. This imperialism finds its economic explanation not in the necessity of new markets for sales or in the interests of selling commodities, but in capital exports. Rosa Luxemburg's analysis, even if it were economically correct, makes no contribution to understanding the economic roots of this imperialism; in this sense, the title of her work is somewhat misleading. Comrade Luxemburg did not refer to the real economic problem we are dealing with here, namely, the export of accumulated capital to primitive lands – it is Hilferding's *Finance Capital* that contributed most to the understanding of this problem. (Pannekoek 1913: 692-3)

While the driving force of the old colonial policy, the export of commodities, was not the essential cause of modern imperialism, it was still operating today, and was therefore a factor that should be taken into consideration. In practice, the two were inextricably linked, 'but capital's drive to look for *investments* in other continents increasingly constitutes the most important driving force of imperialist world policy' (Pannekoek 1913: 693).

Pannekoek's critique of Rosa Luxemburg was approved by Lenin, who, shortly after its publication, sent a letter to Pannekoek, stating:

I am very pleased to see that on the main point you come to the same conclusion as I did in the polemic with Tugan-Baranovsky and the Narodniks 14 years ago, namely, that the realisation of surplus-value is possible also in a 'purely capitalist' society. I have not yet seen Rosa Luxemburg's book, but *theoretically* you are quite correct on this point. (Lenin 1913a)

Lenin's opinion would be reinforced after reading the book, as we will presently see.

Lenin's polemic with the Russian populists and his critique of Rosa Luxemburg's book

In a letter to Kamenev written in March 1913 (i.e. two months later), Lenin returns to the critique of Luxemburg's theory of imperialism:

I have read Rosa's new book *Die Akkumulation des Kapitals*. She has got into a shocking muddle. She has distorted Marx. I am very glad that Pannekoek and Eckstein and Otto Bauer have all with one accord condemned her, and said against her what I said in 1899 against the Narodniks. (Lenin 1913b: 94)

Lenin refers to his book *The Development of Capitalism in Russia: The Process of the Formation of a Home Market for Large-Scale Industry*, whose first edition was published in 1899, particularly the first chapter, entitled *The Theoretical Mistakes of the Narodnik Economists* (Lenin 1964).¹⁰ In section IV of that chapter, Lenin criticised the 'The Narodnik Theory of the Impossibility of Realising Surplus-Value,' and in section VIII wondered 'Why Does the Capitalist Nation Need a Foreign Market?' The Narodniks explained the need for a capitalist nation to have access to foreign markets as a product of the impossibility of realising the surplus value in the Russian market, which was shrinking due to the ruin of the peasants. But since the foreign markets was closed to young countries, which entered the path of capitalist development 'too late', Russian capitalism could not, ultimately, develop.

The Narodniks pointed out the crises arising from the difficulties of realisation as a proof of their thesis about the impossibility of realising the surplus value in the domestic market. Lenin replied that such difficulties, due to the imbalance in the distribution of social labour among the various industries, exist for all parts of the capitalist product, and not just for the surplus value. Due to the anarchic, unplanned character of production under capitalism, difficulties arise constantly, not only in the realisation of surplus value, but also in the realisation of the variable and constant capital, not only in the realisation of the product consisting of consumer goods, but also in the realisation of the product consisting of means of production. Without such difficulties, and without crisis, all capitalist production – i.e. production carried out by isolated producers for an unknown market – would be impossible.

The problem of the realisation of the product in capitalist society (the theory of the internal market) consisted in finding for each part of the capitalist product the other part that replaces it in the market, both in terms of value (constant capital, variable capital and surplus value) and of its material form (means of production and consumer goods, specifically necessities and luxury articles). According to Lenin, the Narodniks reduced the problem of the realisation of the product to the realisation of surplus value, whereas, in fact, the difficulty of explaining realisation consisted in explaining the realisation of constant capital. To be realised, the constant capital must be incorporated back into production, and that is directly possible only in the case of the capital of department I, whose product consists of means of production. But in the case of the capital of department II, whose product consists in consumer goods, this product cannot be employed directly in production; it is necessary to exchange it for means of production.

Foreign trade had to be excluded from the analysis because its inclusion did not advance the solution of the problem, but simply extended it from one country to several. The need for a capitalist country to have access to foreign markets was not at all determined by the laws of the realisation of the social product (and of surplus value in particular), but, first, by a historical reason: since capitalism made its appearance as a result of a highly developed commodity circulation, which exceeded the limits of the national state, in practice there was no capitalist nation without foreign trade. Second, the

necessary proportion between the different parts of social production (in value terms and in its natural form), which was necessarily presupposed by the theory of the reproduction of social capital, was effectively established only as the average of a series of continuous fluctuations, and was constantly being disturbed in capitalist society because of the separate existence of private producers working for an unknown market. As a result of this process,

the various branches of industry, which serve as 'markets' for one another, do not develop evenly, but outstrip one another, and the more developed industry seeks a foreign market. This does not mean at all 'the impossibility of the capitalist nation realising surplus-value,' – the profound conclusion so readily drawn by the Narodnik. It merely indicates the lack of proportion in the development of the different industries. If the national capital were distributed differently, the same quantity of products could be realised within the country. But for capital to abandon one sphere of industry and pass into another there must be a crisis in that sphere; and what can restrain the capitalists threatened by such a crisis from seeking a foreign market, from seeking subsidies and bonuses to facilitate exports, etc.? (Lenin 1899: 66)

Capitalism could not exist and develop without constant expansion of its sphere of domination, without colonising new countries and without dragging the old non-capitalist countries into the vortex of the world market.

Lenin subsumed the contradiction resulting from the growth of production and the restricted limits of consumption (the so-called 'market question') to the question of the proportionality between sectors of production, arguing that the 'consumption capacity of society' and the 'proportionality between the different branches of production' are not two separate and unrelated phenomena. On the contrary, 'a definite condition of consumption is one of the elements of proportionality' (Lenin 1899: 58). The aim of production in capitalist society is not consumption but the valorisation of capital – that is, in capitalist terms, the pursuit of profit, which, among other things, forces capitalists to reduce wages as far as possible. The contradiction between the drive towards unlimited extension of production inherent in capitalism and the restricted consumption of the masses due to their status as wage workers corresponds to the historical mission of capitalism, which is the development of the productive forces of society, and at the same time reveals its limitations as a transitional stage in the development of the productive forces, as its social structure severely limits the utilisation of those technical achievements by the masses.

Finally, Lenin had also criticised the use made by the Narodnik economists of the theory of the 'third persons' (Lenin 1895). In particular, Lenin criticised the 'theory of markets' of the Populist writer V.P. Vorontsov (V.V.), who claimed that 'in developed capitalist society a 'surplus of goods' is inevitable,' and that therefore 'the home market cannot be sufficient, a foreign one is necessary'. He could not understand how Pyotr Struve, then a 'Legal Marxist', could agree with Vorontsov 'that surplus value cannot be realised from consumption either by the capitalists or by the workers, but presumes consumption by third persons'. This theory, says Lenin, 'is simply that of ignoring the distinction between personal and productive consumption, the distinction between the means of production and articles of consumption, a distinction without which it is impossible to understand the reproduction of the aggregate social capital in capitalist

society' (Lenin 1895: 497). According to Lenin, all those arguments were 'based on the naïve view that the capitalist's purpose is only personal consumption and not the accumulation of surplus value'. Actually, an ever-growing part of the social demand consists in the capitalists' productive consumption in means of production. 'Marx proved in Volume II that capitalist production is quite conceivable without foreign markets, with the growing accumulation of wealth and without any 'third persons' (Lenin, 1895: 498).

Given this background, one can understand why the whole debate about Luxemburg's theory of imperialism produced in Lenin a feeling of *déjà vu*. In his letter to Kamenev, cited above, Lenin said: 'I intend to write about Rosa for No. 4 of *Prosveshcheniye* ["*Enlightenment*"]' (Lenin 1913b: 94). The article was never published, but its outline has been preserved, along with Lenin's marginal notes to Luxemburg's book (Day and Gaido, 2012: 678, and Lenin 2000). Lenin, like Hilferding, associated capitalist expansionism to the falling rate of profit and the need to correct disproportionalities arising in the national economy as a result of the anarchical character of private production. In his 1916 brochure, *Imperialism, the Highest Stage of Capitalism*, Lenin associated this theme with the compulsive export of capital and reformulated Hilferding's thesis as the law of uneven development, derived from his old debates with the Narodniks on the imbalances in the reproduction process of social capital.¹¹ As for the motivation of the capitalists to export capital, Lenin's conclusion, in his marginal notes to *The Accumulation of Capital*, was lapidary: 'Migration of capital to backward countries. High returns! And that's all' (Lenin 2000: 235).

Conclusion

The centrist theoreticians drew reformist conclusions from the theoretical possibility of equilibrium in capitalist accumulation contemplated by Marx's diagrams of expanded reproduction. If they did not deny the possibility of crises breaking out, even admitting that they are relatively normal phenomena, they regarded crises mainly as a way to regain the lost equilibrium. Their attacks on Rosa Luxemburg's 'catastrophism' were thus aimed not at stressing the value of revolutionary will and organisation, but at dismissing the possibility of a major crisis of capitalism (like that one that erupted soon afterwards as a result of the First World War), invoking the 'counter-tendencies' to imperialism mentioned by Hugo Haase in his report to Chemnitz Congress of the SPD in 1913. As a result, many analyses from the centre and right had in common their view of imperialism, not as a necessary consequence of capitalism at a certain stage of its development, but as a particular policy that could be modified. It is for this reason that Gustav Eckstein and Otto Bauer were included by Roman Rosdolsky, who on this point follows Henryk Grossmann, among the 'neo-harmonist' tendency in Marxist political economy (Rosdolsky, 1977: 497-505).

To the foreseeable rejection of *The Accumulation of Capital* by the right and centre wings of the party was joined that of prominent representatives of the left wing of the International, such as Pannekoek and Lenin, who pointed out that the theoretical foundations of Luxemburg's work (a revision of the diagrams of expanded reproduction offered by Marx in the third section of the second volume of *Capital*) were erroneous, and that, moreover, her book did not explain what needed to be explained, namely the changes in the foreign policy of the imperialist countries in the last decades of the 19th

century, manifested in a series of acts of aggression such as the Spanish-American War of 1898, the Boer War (1899-1902) and the suppression of the Boxer Rebellion in China by the Western powers in 1900. To this end, Pannekoek and Lenin resorted to theories offered in 1910 by the Austro-Marxist Rudolf Hilferding in his book *Finance Capital: A Study of the Latest Phase of Capitalist Development*, emphasising the emergence of finance capital, the falling rate of profit, the export of capital and the uneven development of capitalism as the driving forces of modern imperialism.

Endnotes

1. The central writers in this context are two forgotten publicists: Max Beer (1864-1943), an Austrian émigré in London, who resided in New York in the crucial years from 1898 to 1901, and the German Heinrich Cunow (1862-1936), a pioneer in the use of the concept of 'finance capital'. See the documents by Max Beer and Heinrich Cunow in Day and Gaido (2012: 95-146, 177-210, 239-290). For an overview of theories of imperialism in German Social Democracy, see Andreucci (1988).
2. Internationaler Sozialistenkongress vom 23. bis 27. September 1900 in Paris, Resolution zur Kolonialpolitik, in Institut für Marxismus-Leninismus 1975 (ed.), Band IV: März 1898–Juli 1914, 1975, p. 61.
3. See the documents of the mass strike debate in Grunenberg (1970).
4. See the main documents of the debate in Day and Gaido (2012: 623-616).
5. For an English version of Haase's full report, and the debate on it at the Chemnitz Parteitag, see Day and Gaido 2012 (623-673).
6. *Ein Beitrag zur ökonomischen Erklärung des Imperialismus* – for some reason, the subtitle is not included in the English editions.
7. Luxemburg, *The Accumulation of Capital*, Chapter XXVI: 'The reproduction of capital and its social setting'. We have translated this passage from the German original, since the standard English edition is inaccurate.
8. See the reviews by Otto Bauer and Julian Marchlewski (Karski) in Day and Gaido (2012: 413-440), as well as Kautsky's review 'Finance Capital and Crises', originally published in German as 'Finanzkapital und Krisen (Rudolf Hilferding, Das Finanzkapital)', *Die Neue Zeit* (1911), 29(1), pp. 764-72, 797-804, 838-64, 874-83. Also partly available online in English, at <www.marxists.org>.
9. The best biography of Pannekoek is that of Gerber (1989). Pannekoek later became a member of the Zimmerwald Left and of the Communist International, where he belonged to the far left current called Council Communism.
10. In fact, Lenin had already discussed the issues raised in Luxemburg's work two years earlier, in his work against the Populists entitled *A Characterisation of Economic Romanticism (Sismondism and our native Sismondists)*. Sections V and VI of the first chapter deal with 'Accumulation in Capitalist Society' and 'The Foreign Market as the "Way out of the Difficulty" of Realizing Surplus-Value' (Lenin 1897: 154-165). On the controversy over the development of capitalism between the Russian Marxists and the Narodniks, see Walicki 1980.
11. 'The uneven and spasmodic development of individual enterprises, of individual branches of industry and individual countries, is inevitable under the capitalist system' (Lenin 1970: 72). Postulating this law was important to refute Hilferding's hypothesis about the formation of a 'Generalkartell', which Hilferding described as follows: 'The ultimate outcome of this process would be the formation of a general cartel. The whole of capitalist production would then be consciously regulated by a single body which would determine the volume of production in all branches of industry. Price determination would become a purely nominal matter, involving only the distribution of the total product between the cartel magnates on one side and all

the other members of society on the other' (Hilferding 1910: 234). Hilferding qualified this extrapolation, stressing that the ultimate obstacle to this 'organized capitalism' lay in the class struggle, but Kautsky based himself on this hypothesis to postulate the possibility of the bourgeoisie adopting a new policy that he called 'ultra-imperialism', in which it would be possible to avoid war through disarmament and international agreements between the capitalist powers (Kautsky 1914).

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