The Crisis is an Overproduction Crisis

[This is a letter I sent to friends on Oct. 29, 2008, together with an article (appended below) from the *Financial Times* about overproduction in the car industry. –S.H.]

Hi everybody,

The world still thinks that it is “only” in the midst of a major *financial* crisis, though most people now recognize that there is “also” a worldwide recession in progress which they usually consider to have been “caused” by that financial crisis. But in reality the basic economic problem in the world is an *overproduction crisis*, and we Marxists at least should never lose sight of that fundamental fact.

In an overproduction crisis it becomes apparent that there has been an overproduction of *commodities*, and as sales start to rapidly fall production of those commodities is rapidly cut back. One excellent example of this at the present time is the world automobile industry. (See article below.) And note that this initial drop of car sales almost entirely happened *before* the financial crisis got so extremely serious toward the very end of the 3rd quarter.

But the real problem in a major overproduction crisis is not the excess of commodities (which can quickly be adjusted by simply cutting back production) but rather the great excess of *factories* which produce those all those “excess” commodities. There is tremendous overcapacity in the world automobile industry, for example, as with most industries.

In other words the more fundamental problem is the great excess of *capital* itself. And that is the thing that is very difficult to simply “adjust” your way out of. Before there can be a new boom all that excess capital (“excess” in relation to the now greatly diminished market) must first be destroyed. And in the capitalist-imperialist era it is extremely difficult to do that other than through the massive destruction of a world war.

As Marx put it, "The *real barrier* of capitalist production is *capital itself*." [*Capital*, vol. III, Int’l Publishers, 1967, p. 250.]

Scott

Financial Times FT.com

Global car sales fall 6% in third quarter

By John Reed in London

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Global passenger car sales fell by about 1m — or 6 per cent — to 16.2m in the third quarter, General Motors said on Wednesday, as it reported a drop nearly twice that level in its own quarterly sales.

America's largest automaker, which narrowly outsold Toyota worldwide last year, said it had sold more than 2.1 m vehicles globally during the third quarter, down 11.4 per cent on the third quarter of 2007. This brought its total sales in January to end-September to around 7m, down 5.8 per cent on a year ago.

GM's quarterly sales updates, which report industry-wide numbers, are one of the best sources of data on the auto sector as it weathers its worst crisis in more than a decade. The financial crisis has caused consumers to postpone purchases of new cars and companies have had to cut the size of their work force.

Michael di Giovanni, GM's head of global marketing and industry analysis, spoke of the "tremendous snowballing effect around the world from financial turmoil" in the third quarter.

However, he said that he thought actions taken by the US government to stabilise financial markets would lay the groundwork for recovery. "We believe the US is probably in the trough of its downturn right now," he said.

GM mentioned the strengthening dollar, falling oil and commodity prices and rising housing starts as "positives" for the generally grim US car market.

Carmakers, including GM, have scrambled to cut their costs and reduce inventories in the face of the slowdown. Mr Di Giovanni said: "Once we start growing again, productivity will be greatly enhanced."

GM reported higher sales in Brazil, Russia, India and China, but said growth in emerging markets was slowing. The rise in sales in the most previous quarter did not make up for the slump in its US business.

Globally, GM said that about 67 per cent of the 1m drop in cars sold by the entire industry came in the US, the world's largest car market. Total car sales in emerging markets rose 4.7 per cent on a year ago.

Total car sales fell by 1.2 m in the third quarter in North America, Europe and Japan, which still account for more than half of global car sales, the US carmaker said.

GM's own sales in North America fell by 18.9 per cent in the third quarter, and by 12.3 per cent in Europe. Opel and Vauxhall, the carmaker's biggest European marques, reported a 16.3 per cent slump in third-quarter sales.

Jonathan Browning, the company's vice president responsible for global sales, service and marketing, attributed the slide to the two brands' large presence in the UK and Spain, two of Europe's weakest markets this year.

In America, Mr Di Giovanni said that slumping car sales were "more an issue of consumer confidence than credit availability" as consumers reined in spending in response to the housing crisis and rising petrol prices.

GM is burning through about $1bn a month as it reels from the weak US economy and this year's spike in petrol prices, which together caused a collapse in demand for its biggest and most profitable vehicles. The company is talking to Chrysler about a possible merging of their businesses, and to the US government about possible financial aid.

GM's sales in Latin America rose by 3.4 per cent, and were up 2.6 per cent in Asia in the third quarter.

The company made 63 per cent of its sales outside the US in the third quarter, compared with 58 per cent last year.