

THE SOCIALIST PARTY EDUCATION SERIES

GUIDE TO:

BOOKS AND PAMPLETS

ON MARXIAN ECONOMICS

Education Committee, July 1971.

I. SHORT SUMMARIES

THE ECONOMIC DOCTRINES OF KARL MARX by Karl Kautsky. An exposition of Marx's ideas, based mainly on Volume I of Capital by the leading writer of pre-1914 European Social Democracy.
<http://marxists.org/archive/kautsky/1903/economic/index.htm>

more on Karl Kautsky

<http://marxists.org/archive/kautsky/index.htm>

A SHORT COURSE OF ECONOMIC SCIENCE by A. Bogdanoff. Used for many years as a textbook in the Russian Social Democratic movement (by Bolsheviks as well as Mensheviks). Interesting in that Bogdanoff makes it quite clear that Socialism is a moneyless society with production solely for use.

more by Bogdanoff

<http://marxists.org/archive/bogdanov/index.htm>

MARXIAN ECONOMICS by Ernest Untermann (1907). An introduction to the three volumes of Capital by an American Social Democrat. At one point Untermann expresses the erroneous theory of "secondary exploitation", that is, that the workers are exploited by landlords and shopkeepers even after producing surplus value at work.

TIE PEOPLE'S MARX by Julian Borchardt (1919). An abridged edition of the three volumes of Capital edited and arranged by Borchardt, a German Social Democrat.

ECONOMICS FOR BEGINNERS by John Keracher. This short pamphlet from America is perhaps the best introduction to Marxian economics there is. Keracher is one of the few to realise that taxes do not fall on the working class.

<http://marxists.org/archive/keracher/1935/economics-for-beginners.htm>

more

<http://marxists.org/archive/keracher/index.htm>

CAPITALISM YESTERDAY AND TODAY by Maurice Dobb. This short pamphlet has an interesting discussion of crises and the falling rate of profit, even though written by a member of the Communist Party.

MARX ON ECONOMICS edited by Robert Freedman (1961). This Pelican is a selection of Marx's writings on economics edited by an open opponent of Marxian economics with a rubbishy introduction. The quotes and summaries are generally fair, but Part III on "The Nature of a Communist Society" contains a distorted quotation copied from Joan Robinson's An Essay on Marxian Economics which makes Marx say that there will be prices and value in Socialism. It also implies a difference between "socialist" and "communist" society.

II. THE THEORETICAL SYSTEM OF KARL MARX by Louis Boudin (1907)

In this book Boudin, an American Social Democrat, replies to critics of the Materialist Conception of History and Marxian Economics. He deals both with the Revisionists within the Social Democratic movement like Bernstein and with open defenders of capitalism like Boehm-Bawerk.

The first three chapters are about the Materialist Conception of History and so are not relevant here. The following three chapters (IV-VI), which deal with the labour theory of value, are the best part of the book. For a number of years Boudin's work was the only good exposition in English of the basic principles of Marxian economics and these three chapters have served our Party as a textbook.

The remaining chapters, still mainly on economics, are less useful. In them, Boudin outlines an underconsumption theory not only of crises and the business cycle, but also of what he calls the "purely economico-mechanical breakdown of the capitalist system" (Chapters VII and X). His argument is worth examining because in one form or another it occurs time and again in discussions about crises and the collapse of capitalism {e.g. Sweezy, *The Theory of Capitalist Development*).

Due to increasing mechanization and productivity, says Boudin, the share of the working class in the product of their labour tends to get smaller. The capitalists are thus faced with the growing, problem of how to dispose of an ever-increasing surplus-product. They can consume only a small part of it themselves so, says Boudin, capitalism suffers from

"the inherent malady of ever-increasing overproduction because of the ever-increasing diminution of the share of the workingman in the product of his labour."

A crisis breaks out, on this theory, when the pile of unsold goods gets too high; during the slump the surplus is disposed of either through depreciation or even through destruction; the market is restored; production again expands until it is again checked by overproduction, and so on. Ultimately, Boudin argues, if capitalism went on long enough, the time would come when it would collapse through being unable to dispose of the increasing surplus-product. He concedes that this can be postponed for a while by exports, colonies, wars and preparations for war. Anticipating the arguments of some later critics of capitalism (e.g. Baran and Sweezy in their *Monopoly Capital*), Boudin wrote:

"The big military and naval establishments require men, besides money. These men are taken away from ordinary production where they would compete with other men in the labor-market, and where the products by them produced would swell the masses of surplus-product to be disposed of in far-away lands. The taking away of a man for military or naval purposes (including administrative duties of all sorts), relieves the labor-market by one man, and at the same time creates a demand for the goods to be consumed by him which are to be produced by those remaining at work at some useful occupation. WASTE is the safety-valve of capitalism" (his emphasis).

Boudin's theory of underconsumption is fallacious. It overlooks the fact that what the workers and capitalists cannot consume the capitalists can invest, that is, spend on new means of production. Underconsumption can be avoided in the long run if the proper proportions are kept between the output of consumer goods and the output of new means of production. If, as Boudin assumes, the demand for consumer goods as a proportion of total demand tends to fall, then underconsumption can be avoided if the proportion of consumer goods in the total output also tends to fall (and at the same rate).

That the share of consumer goods would tend to fall was a point made by one of the critics of Marxian economics, Boudin mentions, the Russian economist Michael Tugan-Baranovsky. Tugan-Baranovsky was not a Socialist (but he was influenced by Marx and does have a minor place in the literature of the business cycle for a study he made of crises in England in the 19th century), but to him can go much of the credit for stating the classic case against the underconsumption theories of the collapse of capitalism which were current in Social Democratic circles at this time (and which were mistakenly attributed to Marx also). Tugan-Baranovsky stated that, in Boudin's words,

"it is a law of capitalistic development that the quota of consumable goods in the yearly product of

society should constantly grow smaller and the quota of 'means of production' as constantly increase".

This tendency, which counterbalances any tendency for the share of wages in total income to fall, is confirmed by statistical evidence. It also fits in with the Marxian view that the main achievement of capitalism is industrialization, that is, precisely the build-up of the stock of means of production. A case can also be made out for saying that if Marx had finished formulating the thoughts about long-term economic growth he began at the end of Volume II of Capital he would have come to a similar conclusion as Tugan-Baranovsky.

The Social Democrats confused the two issues of the business cycle and the collapse of capitalism. They believed that the business cycle was caused by the sort of underconsumption that meant that its crises would get worse and worse until the whole capitalist system collapsed. This basically is Boudin's position. Tugan-Baranovsky's view refutes the theory that in the long run capitalism must collapse by demonstrating the possibility of long term growth under capitalism, but it does not, and was not meant to, establish that this growth will be steady and crisis-free.

In fact, due to the anarchy of production under capitalism, crises are likely to occur for either of two reasons. When the accumulation of capital brings on a labour shortage, rising wages could reduce the rate of profit and so check expansion. Or, a crisis could break out when the new means of production ordered by the consumer goods sector have been installed and begin to flood the market with more goods than can be sold profitably (this is an underconsumption theory of crises, but one that is not tied to the view that capitalism must collapse through underconsumption and hence more acceptable). Neither of these theories implies that crises tend to get worse and worse; each crisis would be unique and its extent and intensity to be explained only by the specific features of the particular situation which caused it.

Boudin's theory about waste as the safety-valve of capitalism also falls because the problem it is meant to explain (the disposal of an ever-increasing surplus product) does not exist. This is not to say that waste (not only as wars and preparations for war, but also as everything concerned with buying and selling) is not an important feature of capitalism. But, from the point of view of capitalism, such expenditure is not waste – it is part of the essential costs the capitalist class must pay for the upkeep of their system. It is not a question of capitalism collapsing through underconsumption without such expenditure, but of the impossibility of capitalism existing without armed forces or commerce and finance.

THE THEORETICAL SYSTEM OF KARL MARX

<http://www.archive.org/stream/theoreticalsys00boudgoog>

III. THE ACCUMULATION OF CAPITAL by Rosa Luxemburg (1913)

Luxemburg shared the common view amongst the Social Democrats of her day that capitalism would sooner or later collapse because of its inability to sell an ever-increasing, surplus-product over and above what the workers could buy back. This book is an elaborate attempt to prove this, but not only is its basic argument fallacious, it is also difficult to follow.

The level of effective demand, says Luxemburg, is determined, under capitalism by consumption (what the workers and capitalists consume). If a part of the capitalists' profits are re-invested rather than consumed then consumption and hence demand is reduced. The result is that there is nobody to buy the products in which the reinvested profits are embodied (new machinery, raw materials and consumer goods for the extra workers).

This argument makes accumulation impossible under 'pure' capitalism (where there are only workers and capitalists and their hangers-on). Luxemburg does not shrink from this conclusion. In fact it is the basic argument of her book: for capital accumulation to take place there must be non-capitalist areas to buy the surplus-product. It follows that capitalism would collapse at the point when there were no more non-capitalist areas left in the world. (Luxemburg believed that as capitalism approached this point the growing economic instability would cause the working class to establish Socialism before the point of

collapse was actually reached).

Luxemburg had the intellectual honesty to admit that this theory conflicted with the rough notes Marx had made at the end of Volume II of Capital which implied that long-term economic growth (accumulation) was possible even under 'pure' capitalism. She therefore tries to show where Marx went wrong. But she only succeeds in exposing her own utter confusion about economics. She made the silly mistake of assuming that the level of demand was determined exclusively by consumption whereas in fact it is determined by consumption plus investment (capitalist spending on new means of production as apposed to consumer goods for themselves).

'Pure' capitalism has of course never existed and markets provided by non-capitalist areas have played an important part in the development of capitalism. Luxemburg was trying to prove more than this: that capitalism could not have come into being or have developed without these markets.

Whatever may have been the merits of some of her political views, Rosa Luxemburg was no economic theorist. Even those who support her conclusions do not dare to defend her so obviously mistaken arguments. Her work is quite worthless as a contribution towards an understanding of how capitalism works.

THE ACCUMULATION OF CAPITAL

<http://marxists.org/archive/luxemburg/1913/accumulation-capital/index.htm>

more on Rosa Luxembourg

<http://marxists.org/archive/luxemburg/index.htm>

IV. THE THEORY OF CAPITALIST CRISIS by John Stratchey (1935)

In this book Stratchey sets out to give a Marxist explanation of the great slump of the 1930's and of crises generally.

He begins by dealing with the explanations offered by others; those who said the slump was caused by "not enough money" (Douglas and Social Credit is dealt with in Chapter II) and the orthodox economists who said it was due consumption having been too high and savings for investment too low.

Part III is a good simple explanation of the labour theory of value and particularly of the theory of prices of production.

Stratchey outlines his theory of crises in Part IV and bases it on Marx's discussion in Volume III of Capital about the tendency of the rate of profit to fall.

Capital accumulation, says Stratchey, is always accompanied by technical progress. This tends to increase the amount of capital invested in means of production (constant capital) compared to the amount invested in the purchase of labour power (variable capital), a ratio Marx called the organic composition of capital. Since the amount of surplus value depends on the amount of variable capital, this change in the composition of total capital means that the rate of profit (that is, the ratio of surplus value to total capital) must fall. Stratchey is aware of certain off-setting factors such as a rise in the rate of surplus value (that is, the ratio of surplus value to variable capital), but argues that these are unlikely to prevent the rate of profit from falling as capital accumulates and technology advances.

"This", says Stratchey, "is the formula of the minimum rate of accumulation necessary to capitalism. If ever, and whenever, the rate of accumulation falls below this level, the system must, and does, jam".

Since, in Stratchey's theory, the rate of profit is falling because the organic composition of capital is rising this minimum rate of accumulation depends on the speed of technical progress.

This theory seems plausible because crises can, in fact, be linked with a falling rate of profit. Its great drawback, however, is that because it links the falling rate to the rising organic composition of capital, technical progress would have to be extraordinarily rapid for a crisis to occur. Since technical progress can never be as rapid as Stratchey's theory demands his theory must be rejected.

Marx did expect the rate of profit to fall as a result of the organic composition of total capital rising faster than the off-setting factors, but he thought of this as a slow long-run tendency, not the rapid decline Stratchey's theory demands. This is why a fall in the rate of profit associated with technical progress and the changing composition of capital cannot be regarded as a cause of crises. Crises do have some relevance to the falling rate of profit, Marx explained, in that they counteract it by leading to the depreciation and even destruction of the elements of constant capital.

The rate of profit can fall for another reason. The ratio of surplus value to total capital will also fall if the ratio of surplus value to variable capital falls. The rate of surplus value is, in effect, a measure of the division of the social income between profits and wages. As capital accumulates profits and wages rise; at some point a labour shortage develops and wages rise at the expense of profits. The rate of profit falls, bringing on a crisis.

This is a theory of crises which Stratchey himself has to adopt to give a reasonable explanation of the business cycle.

Elements of an underconsumption theory of crises (that a crisis breaks out as a result of an overproduction of consumer goods) are also to be found in this book, which were to become more pronounced in some of Stratchey's later writings, e.g., *Why You Should be a Socialist* (1936). He tries to combine the two theories of crisis.

"Capitalism is menaced", as he puts it, "by the Scylla of its periodic inability to sell its products, and by the Charybdis of a collapse of the profitability of production".

Stratchey was to become a future Labour Cabinet Minister, but at this time was a faithful follower of the Communist Party's line and so regarded Russia as on the way to Socialism. The final part of the book in which this is obvious is of no use.

V. AN ESSAY ON MARXIAN ECONOMICS by Joan Robinson (1942)

Joan Robinson's short book is an examination of Marxian economics, from a Keynesian point of view. It has a key place in modern Marx-criticism and has been reprinted many times, mainly for students.

This book presents some difficulty for those who are not familiar with the language of the academic economists, for whom it was written. Robinson, in fact, begins by trying to translate Marxian economic categories like the rate of surplus value, the rate of profit and the organic composition of capital into those of academic economics. This is not easy because Marx's analysis is always in terms of value (for him, a relation between men) whereas for them economics is concerned with relations between things. Not surprisingly, therefore, Robinson's main conclusion about the labour theory of value (Chapter III) is that it is "mysticism" and that the concept of value is useless as economics can describe relations between economic things just as well without it.

In an appendix to this chapter entitled "Value in a Socialist Economy" there appears a notorious distortion of a passage from Volume III of *Capital* which makes Marx say under Socialism commodities will exchange at their values because this is the rational way. Robinson selects two unrelated sentences from a complicated paragraph where Marx is discussing how, under capitalism, the producers can never know whether the labour they have spent in producing their commodities really was socially necessary until after they have tried to sell them: if they have produced more than they can sell at the normal rate of profit, then prices fall below values, indicating that part of the labour spent in producing the commodities was not after all socially necessary. Marx adds, in brackets, that such a waste of labour-time could never occur in Socialism since production will be planned to meet demands. After this aside, Marx goes on to say that under capitalism the ideal – or rational, from the system's

viewpoint – situation is when commodities exchange at their values, since this means that no social labour-time has been wasted. Robinson omits the brackets around Marx's aside and makes the passage about the rational way of exchange follow after it, thus making Marx say the opposite of what he did. This mistake is repeated in the Pelican Marx on Economics edited by Robert Freedman and was left uncorrected in the second edition of Robinson's book issued in 1966 (The distortion was first pointed out in an article in the SOCIALIST STANDARD as far back as January 1944).

Robinson devotes a chapter (V) to the tendency of the rate of profit to fall. Her basic mistake here is to confuse an economic "tendency" with an economic "law". Marx expressly stated that the falling rate of profit was not a necessity (or a "law") but, because of counteracting forces, could only be described as a slow long-run tendency. Robinson, while still using Marx's description of it as a tendency, makes of it a law (or "tautology", as she calls it). She can only do this by attributing to Marx an assumption he never made, namely, that the rate of surplus value remains constant. As a matter of fact, Marx lists a rise in this rate as one of the counteracting forces which made the falling rate of profit only a tendency. In chapter VI Robinson tries to make an underconsumptionist of Marx. If he had lived to work out fully his theories on this point, she says, he might have argued:

"Consumption by the workers is limited by their poverty, while consumption by the capitalists is limited by the greed for capital which causes them to accumulate wealth rather than to enjoy luxury. The demand for consumption goods is thus restricted. But if the output of the consumption-good industries is limited by the market, the demand for capital goods is in turn restricted, for the constant capital of the consumption-good industries will not expand fast enough to absorb the potential output of the capital-good industries. This the distribution of income, between wages and surplus, is such as to set up a chronic tendency for a lack of balance between the two groups of industries."

She goes on to say that the system could break out of this vicious circle if the capitalists were prepared "to invest their surplus in capital goods without regard to the prospects of profit":

"Thus to clinch the argument it is necessary to show that investment depends upon the rate of profit, and that the rate of profit depends, in the last resort, upon consuming power."

This Robinson tries to do with the help of Keynes' theory of employment (chapter VIII). According to her:

"Mr Keynes justifies Marx's intuition that the chronic conflict between productive and consumptive power is the root cause of crises. The misdistribution of income restricts consumption, and so increases the rate of investment required to maintain prosperity, while at the same time it narrows the field of profitable investment, by restricting the demand for consumption goods which capital can produce."

That the demand for capital goods depends exclusively on the demand for consumer goods is an old underconsumptionist myth. Keynes himself never argued this and even Robinson has to admit that:

"Geographical discoveries and technical inventions open alternative fields for investment, while wars from time to time absorb huge quantities of capital. Indeed, the survival of the capitalist system bears witness to the fact that long periods of rapid accumulation can occur. But their recurrence is at the best of times uncertain, and when the stimulus to investment flags, the underlying contradiction between the capacity to produce and the capacity to consume comes to the surface in waste and misery, which becomes more and more intolerable as their causes become more clear."

Butt this is now no longer strictly a theory of underconsumption.

Chapter X is devoted to contrasting the view of Marx and Keynes on the effect of wage levels on the inducement to invest. Marx argued that if in a boom wages rose at the expense of profits this would precipitate a crisis and a drop in investment and, conversely, that low wages during a slump would encourage capitalists to expand investment again. Keynes was of the opposite view: he said that rising wages in a boom would only lead to rising prices and so not cut into profits and that low wages in a slump would not encourage recovery. Robinson says that Keynes was right and Marx was wrong. Post-war experience, and particularly the repeated attempts to keep wages down through an "incomes policy" (which Keynes never mentioned), would seem to prove otherwise.

VI. THE THEORY OF CAPITALIST DEVELOPMENT by Paul Sweezy (1942)

The basic argument of this book is that under capitalism there is a tendency for the production of consumer goods to outstrip the demand for them.

Sweezy begins by describing the basic principles of Marxian economics (the labour theory of value, surplus value, the organic composition of capital, the rate of profit). This part of the book (Chapters I-IV), together with Chapter VI on "The Falling Tendency of the Rate of Profit" and Chapter IX on "Crises Associated with the Falling Tendency of the Rate of Profit", can be recommended.

Sweezy concedes that rising wages in a boom cutting into profits is a possible cause of crises, but says that this is an inadequate theory because it implies that capitalism can continue from crisis to crisis without any tendency to collapse. He therefore sets out to prove that capitalism will tend towards a state of chronic depression due to underconsumption, (Chapters X-XII).

Sweezy bases his argument on two premises: First, that the production of new means of production tends to expand at a faster rate than the demand for consumer goods, because the capitalists tend to consume a smaller part of their profits and because additional wages form a smaller part of new investment. Second, that the output of consumer goods tends to expand at the same rate as the stock of means of production, because there is a more or less stable ratio between this stock and the output of consumer goods.

It follows from these two premises that the output of consumer goods must tend to grow at a faster rate than the demand for consumer goods.

Sweezy goes on to examine the 'breakdown controversy' (or, Will capitalism collapse?) and endorses Kautsky's view that capitalism tends to a state of chronic depression. He then outlines a number of counter-acting tendencies, the chief of which are State intervention and the export of capital, i. e. "imperialism".

Sweezy's argument is fallacious, not because its logic is faulty, but because his second premise is false.

Amongst the counter-acting tendencies to underconsumption Sweezy lists industrialisation and concedes that during the period when a new industry is being developed there is no stable ratio between the stock of means of production and the output of consumer goods. His second premise, in other words, is not applicable.

It is absurd to classify industrialisation, capitalism's main achievement, merely as a counter-acting tendency. If Sweezy had given this factor its proper position as one of the basic features of capitalism, he would have been unable to show any tendency towards underconsumption.

It is true, however, that if there are no profitable outlets for investment (such as the development of new industries) then there will be industrial stagnation – but this is not underconsumption.

It is also true that the unending expansion of the stock of means of production without ever increasing the output of consumer goods is an unreal supposition. This, however, is what capitalism must do if growth is to be steady and goes a long way towards explaining why under capitalism growth takes the form of the boom-slump cycle. The expansion of the stock of means of production is periodically checked either by rising wages cutting into profits (as described by Sweezy in Chapter IX) or, perhaps, by the overproduction of consumer goods when expansion has taken place. A depression might be brought on by such underconsumption, but there is no reason to suppose that this would be chronic; it would only be one phase of the business cycle.

Sweezy, then, fails to prove his point, there is no tendency for capitalism to collapse through underconsumption.

The last part of the book is on Imperialism and is only a rehash of the views of Lenin (and Stalin).

Sweezy was, and is, one of those who regards Russia as 'socialist' without actually being a member of

the Communist Party.

Chapter VII on 'The Transformation of Value into Prices' contains a fallacy about the organic composition of capital c invested in luxury industries having no effect on the rate of profit and is important only because Michael Kidron bases his argument in Chapter 3 of *Western Capitalism Since the War* about arms production offsetting the falling rate of profit on it.

VII. MARXIST ECONOMIC THEORY by Ernest Mandel (1962)

Mandel's two volume work is the most ambitious attempt yet to explain Marxian economics. His approach is to try to reconstruct Marx's theories from modern evidence and his book is filled with detailed references to the works of anthropologists, historians and economists rather than with quotations from Marx.

Mandel, a university teacher in Belgium, is a prominent figure in orthodox Trotskyism and his work divides conveniently into Marxian economics proper (Vol. I) and Trotskyist views on monopoly capitalism, imperialism, Russia as "an economic system which has already gone beyond capitalism but which has not yet reached socialism", the so-called transition period, and so on (Vol. II). Mandel does recognise Socialism as a world-wide classless and moneyless democratic community and his final chapter (18) on the 'Origin, Rise and Withering Away of Political Economy' is good; but the rest of Volume II is mainly Trotskyism.

Vol. I, on the other hand, is a very good explanation of Marxian economics. In the first four chapters abstract economic categories like surplus product and exchange value and capital are introduced in an historical context as Mandel briefly describes the evolution of society from primitive times to the birth of capitalism.

The explanation of how capitalism works begins with chapter 5 and the remaining six chapters of the volume cover the subjects of credit, money, agriculture, national income and crises. With the exception of chapter 8 on Money (where Mandel appears confused over what currency is and to accept the myth about banks creating credit), Mandel's treatment of these subjects is very near to ours. He rejects the theory of the absolute impoverishment of the working class (which Russian state economists have tried to foist on Marx) and underconsumption models of capitalist development (such as that in Sweezy's *The Theory of Capitalist Development*). He does, however, still agree with Sweezy that the tendency of capitalism is now towards long-term stagnation but bases this view on the lack of profitable investment outlets rather than underconsumption. He also gives more emphasis to the tendency of the rate of profit to fall than we would, but this is because it plays a key role in his theory of imperialism (where it is supposed to lead to the export of capital).

Although Mandel rejects underconsumption models of capitalist development, his theory of crises is basically an underconsumption one in that he argues that it is the overproduction of consumer goods at a certain stage of the business cycle that brings on a crisis. This is a possible cause of crises, though they can also be brought on by the effect of low unemployment in a boom in raising wages and so cutting profits.

Mandel argues that the consumer goods sector is the first to recover after a depression; its orders for new equipment then revive the producer goods sector and the interaction between the two sectors eventually leads to a boom and full employment. At full employment, according to Mandel, although money wages rise real wages tend to fall or remain constant because of rising prices. This means that there is little or no increase in the demand for consumer goods. The crisis breaks out when the new equipment ordered earlier by the consumer goods sector is installed and the output of consumer goods increased.

Clearly there is a conflict between this and the falling-profits theory of crises as to what happens to real wages in a boom: do they or do they not rise? This is a question of fact which can only be settled by actually examining the evidence from particular crises. Mandel relies, incidentally, for his view that real wages do not rise mostly on the evidence of people who argue that it is the overproduction of

consumer goods rather than falling profits that precipitates a crisis.

There is also a pamphlet by Mandel An Introduction to Marxist Economic Theory which is what its title suggests.

More from Ernest Mandel

<http://marxists.org/archive/mandel/index.htm>

Extract from Marxist Economic Theory

<http://marxists.org/archive/mandel/works/marxist-economic-theory/marginalists.htm>

VIII. PRODUCTIVE LABOUR AND EFFECTIVE DEMAND by Sydney H. Coontz (1965)

In this book parts of which may be difficult for those not familiar with the mathematical side of economics, Coontz tries to show why a high-consumption economy is incompatible with capitalism. He reaches the right conclusion, but for the wrong reasons.

Since most economic thinkers have defined ‘consumption’ to mean ‘unproductive expenditure’ Coontz is straightway led to examine the concepts of productive and unproductive labour – from Aristotle to the Physiocrats (Chapter I), through Adam Smith, Ricardo and Malthus (Chapter II), and Marx (Chapter III) to the Keynesians (Chapter IV). He concludes that the best approach is that of Marx which says that only labour which produces surplus value is productive under capitalism; any other kind of labour is unproductive and a charge on surplus value. This contrasts with the current academic view that all paid labour is productive. If Marx’s definition of productive labour is accepted then those who want to increase effective demand by increasing unproductive expenditure are seen to be a threat to profits, the motive of capitalist production.

Actually this is not quite how Coontz puts it. He virtually ignores the rate of profit and bases his argument on

“the basic law of accumulation, the rise in the capital-labour ratio which requires that the producer goods sector grows more rapidly. than the consumer goods sector”.

Since profits are the source of demand for producer goods, this law can only operate if the share of (re-invested) profits in the national income tends to grow. This, according to Coontz, is why capitalism cannot tolerate a high consumption economy.

But is it? Is there such a “law” as Coontz poses? It is true that competition forces capitalist enterprises to innovate continually in a bid to reduce their costs and that the technical progress that results is as a rule characterised by the substitution of machines (which are part of constant capital) for labour power (variable capital). The technical composition of capital thus tends to rise, but this ratio is not the same as Marx’s organic composition of capital which is a relationship between the value of the constant capital and the value of the variable capital.

Since technical progress will tend to cheapen the cost of plant and machinery, the organic composition will tend to rise more slowly than the technical composition. If inventions cheapen the cost of the elements of constant capital enough then the organic composition might not rise at all or might even fall. To the extent that it does rise, then the producer goods sector will grow faster than the consumer goods sector. But if it does not rise – and it has been suggested that after rising throughout the 19th century it has, remained almost the same since 1920 – then Coontz’ “law” falls. In fact there is no such “law” at all; to say that the producer goods sector grows the faster is merely a description of what happens if the organic composition rises.

It still remains true, however, that a high-consumption economy is incompatible with capitalism, but because too-high wages and too high expenditure on unproductive labour would eat into profits and reduce the incentive to invest.

Coontz also discusses Marx’s theory of crises (Chapter IIIc and Chapter IV b). Sweezy in his The Theory of Capitalist Development had suggested that Marx held two theories of the business cycle: (1)

the effect of accumulation on the size of the industrial reserve army and hence on wages and profits, and (2) disproportionate growth between the producer and consumer, goods sectors of the economy.

Coontz argues that Marx had only one theory – the second – and rejects the first as a misinterpretation. Marx, he says, did not believe that under industrial capitalism crises were brought on by “a profit squeeze consequent upon a wage rise resulting from a labour short-age”.

Coontz is right to say that Marx only had one theory of crises – disproportionate growth arising out of the unplanned nature of capitalist production (“the anarchy of production”). Such disproportions however, can arise in many different ways. From, for instance, the overdevelopment or decline of one or other sector, or of particular industries within either sector. Coontz seems not to realise that a crisis caused by a rising share of wages in national income would also be a case disproportionate growth. A rise in wages’ share means a fall in the share of profits, but re-invested profits are the source of demand for producer goods. Thus, there is either overproduction of producer goods or the expansion of the producer goods sector is checked by a fall in demand. The cut-back in employment in that sector leads to a fall in demand for consumer goods too – which would appear as overproduction of consumer goods.

Coontz rejects the view that crises are (as opposed to can be) caused in this way. “The point is”, he asks at one point, “are crises precipitated by wage increases in the period of industrial capitalism? To my knowledge there is no evidence to support this hypothesis” and later “such an interpretation would be inconsistent with the available data” (on crises). Coontz does not in fact produce any of this data except for the crash of 1929 and he seems to reject this view on the unconvincing ground that the existence of the industrial reserve army means a labour shortage cannot develop (and that if it ever did then the introduction of machinery would soon eliminate it).

Coontz says that the Marxian theory of crises is that they are precipitated rather by the overproduction of consumer goods caused by the consumer goods sector developing too fast for the producer goods sector. This of course, is one possible cause of a crisis and Coontz offers some evidence to show that this may have caused the 1929 slump in America.

A boom, Coontz points out, can originate in either sector. If it originates in the producers goods sector – building mills to build more mills, as it is sometimes described – it will be checked sooner or later by a shortage of profits, the source of demand for producer goods. (If the proportion of producer goods in national output is rising, then for balanced growth so must the proportion of re-invested profits in the national income). On the other hand, if the boom originates in the consumer goods sector, then unless the producer goods sector expands fast enough the boom will be checked by the overproduction of consumer goods (the wages paid and the profits consumed in the producer goods sector being an important source of demand for consumer goods). So, says Coontz, “The dilemma of capitalist accumulation” or “the profit-consumption dilemma”:

“Either insufficient profits to continue the process of investment; or, given, a boom in the consumer sector, the fall in labour’s share of national income during prosperity precipitates a crisis of overproduction in the consumer sector.”

(Actually, a fall in the share of wages in national income is not essential to Coontz’ argument. A crisis caused by the overproduction of consumer goods would still break out even if the share of wages increased, if the output of consumer goods increased even more.)

Permanent prosperity and balanced growth, in other words, are impossible under capitalism. A boom is always sooner or later checked by the overproduction either of producer goods (which is what a shortage of profits amounts to) or of consumer goods. Crises of whatever sort arise basically because of capitalism’s anarchy of production.

Coontz tries to extend this and explain crises in terms of long-run trends – the rising organic composition of capital and the falling share of wages (he ignores the falling rate of profit as he believes that in the 1920’s and since the war it has been off-set). Obviously such trends, if they can be established, must have some effect on the character of the crises which do occur. It remains true, however, that crises would still break out under capitalism because of the system’s anarchy even in the

absence of particular long-run trends.

Despite its one-sided emphasis on crises precipitated by the overproduction of consumer goods, this book is an interesting and useful discussion of the Marxian theory of crises.

IX. MARX AND KEYNES by Paul Mattick (1969)

This is a Marxist criticism of Keynesian economics. Chapters II-X deal with Marxian economics, chapters XI-XVII with the so-called mixed economy and chapters XVIII-XXII with national state capitalism and the backward countries.

Mattick places the falling rate of profit at the centre of his version of the Marxian theory of crises and the so-called collapse of capitalism.

Crises break out, he says, when the factors offsetting the latent tendency for the rate of profit to fall (due to the rising organic composition of capital) fail to prevent the rate from actually failing. Capitalism recovers from a crisis, he goes on, because the resulting devaluation of capital assets again raises the rate of profit. Accumulation proceeds until it is again checked, though at a higher level. As Mattick puts it:

“Despite intermittent periods of depression, each upswing brings capital production to a higher point and wider extension than its previous level of development ... Capital develops in a manner that maybe described as three steps forward and two steps backward. This type of locomotion does not hinder the general advance; it only slows it.”

This is a good description of capitalist development, even though Mattick has little space for unbalanced growth arising out of the anarchy of capitalist production.

Marx, said Mattick, recognised that there were theoretical limits to capital accumulation. It can be demonstrated mathematically that it is physically impossible for a rising rate of surplus value (s/v) to forever prevent a declining rate of profit ($s/c + v$) given an ever-rising organic composition (c/v). But although Marx once or twice used the word ‘collapse’ in this context, this is not really a theory of the collapse of capitalism because in practice the point of no accumulation is never likely to be reached. It would presuppose, for a start, a fantastically high degree of capital accumulation, automation and labour productivity (which would mean, as Marx once pointed out, that the price system would break down because commodities would be so cheap that they ought to be given away free). This theory was meant as Marx’s contribution to the problem of the threat of stagnation which had worried classical political economists like Adam Smith, Ricardo and John Stuart Mill. Marx was pointing out that if this stage was ever reached it would be due to an economic factor like falling profits rather than a natural one like diminishing returns from agriculture.

Mattick is undoubtedly right in stating that “Marx’s theory is not a theory of underconsumption” and in placing profits rather than markets as capitalism’s big problem.

Keynes, too, held a theory of capitalist stagnation. He felt that as capital became more and more abundant the rate of profit (its “efficiency” as he called it) would fall thus discouraging investment. His policies were meant to combat this stage of stagnation towards which ‘mature’ capitalism was tending. Mattick’s criticism of the theory of Keynesianism is quite good. He points out that all government spending must be financed from the present and future profits of capitalist industry. Government spending to combat slumps would thus be a redistribution of profits from one section of capitalist to another (those who sold to the government or who received government subsidies). It would be a cost which, by maintaining what Mattick calls a “non-profit sector”, reduces the overall rate of profit. The limits of Keynesian policies are the profits of private industry. If these are discouraged then more government spending would be needed to avoid the slump and so on, with full national state capitalism as the logical outcome. Since the capitalists do not want this, says Mattick, they seek to keep government spending within limits.

Mattick does seem to imply that the state of stagnation of both Marx and Keynes had begun to appear

and that government spending has been consciously undertaken to combat it. This is open to challenge on a number of counts.

First, Marx's theoretical state of stagnation is nowhere near. Second, government spending has been undertaken not so much as to avoid slumps as to provide essential services for the capitalist class as a whole (education, health, defence), though this has incidentally affected the overall level of production and employment and has been financed out of profits and by inflation. Third, Mattick is saying in effect that Keynesian techniques have saved capitalism, at least temporarily. This is not true because they have never really been tried properly, except perhaps as inflation to reduce real wages.

Mattick also deals with economic development, the backward countries and Russia. Although he describes Russia as state-capitalist (because it is still based on wage-labour) he views the national state capitalism practised there and in a number of other countries as a quite different social system from Western-type capitalism. Indeed, he sees it as more advanced and one towards which the West is heading too, under the ideology of Keynesianism. This does not mean, however, that he supports it. National state-capitalism, he says, is no solution to the problem of the backward countries, only world socialism is. And Mattick is quite clear that Socialism means the end of money, wages, profits, interest, etc.

On a number of points Mattick comes quite close to us, and used to write for the Western Socialist during the fifties when they accepted articles from outsiders (in fact parts of chapters I, II and XII of this book originally appeared in the W.S. article 'Marx and Keynes' Mattick wrote in November-December, 1955). Unfortunately his book assumes a high level of acquaintance with the theories of both Marx and Keynes which makes it difficult to follow for beginners.

Available online here <http://marxists.org/archive/mattick-paul/1955/keynes.htm>

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