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# "THE NEW INDUSTRIAL REVOLUTION" AND THE FALLING RATE OF PROFIT

By Albert Phillips

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## "THE NEW INDUSTRIAL REVOLUTION" AND THE FALLING RATE OF PROFIT -- A CRITICAL REVIEW OF DR. JOSEPH M. GILLMAN'S "THE FALLING RATE OF PROFIT" (1)

By Albert Phillips

From all sides, most significantly of course in the United States and the Soviet Union, references are heard in responsible quarters (2) to the "New Industrial Revolution." Sometimes it would seem as if we were in the midst of it, sometimes just "on the threshold," but it appears in all cases as a central and recurring theme in economic and social thought.

In Marxist circles it is generally agreed that a new industrial revolution could give capitalism a new lease on life for an entire historic period. Such a possibility is ruled out, however, on the grounds that there no longer exist markets which could absorb the output of such a transformation. Arne Swabeck, for example, says that it is impossible under capitalism because capitalism "...is incapable of developing commensurately (with the productive forces, A.P.) the conditions of consumption." (3)

This basically underconsumptionist approach, revealing as it does a misunderstanding of Marxist economics and of the fundamental contradiction in capitalism, can lead, as we shall see in the case of Dr. Joseph Gillman to a direct attack on the theory of the falling rate of profit, an implicit rapprochement with reformist and bourgeois Keyensianism, and ultimately to conclusions far more suited to "peaceful coexistence" and its sister doctrine of "many roads to socialism," than to revolutionary socialist politics.

In Russia, the "threshold of the new industrial revolution" is implicitly equated by the bureaucracy with the "threshold of communism." And here the underconsumptionist answer to the possibility of a new industrial revolution has even more immediate theoretical consequences. What if, as is not inconceivable, the USSR should achieve equality with the U.S. in labor productivity, even if not by 1970? Surely the problem of "markets," of realization, is not the paramount one in the Soviet Union. What would prevent the bureaucracy from carrying through an industrial revolution "far exceeding in importance the industrial revolutions associated with the appearance of steam and electricity"? Would we not then be bound, at minimum, to reconsider the theory of the possibility of achieving "socialism in one country"? (4) Must we not then reevaluate the doctrine of the "self-reform of the bureaucracy"?

### The Nature of an Industrial Revolution and Its Historic Tasks

But what do we mean when we speak of an industrial revolution and how do we measure it? Judging by past historical experience, it is an explosive increase in the productivity of labor concentrated within a relatively short period of time. As Marxists, we must also measure an industrial revolution by whether it satisfies future demands upon the productivity of labor.

This communist future is the world in which the "fountains of social wealth flow so freely" that on a world scale man will be as casual about homes and autos as he is today about matches in most parts of the world. It is the world in which man on a world scale will be free of concern over material wants, and will be able to develop his full potentiality as a human being.

We affirm that this future demands a qualitative leap in the productivity of human labor over and above _anything_ history has hitherto witnessed. That is to say, we are in disagreement with those who maintain that the working class has only to lay its hands on the ready-made productive machine of capitalism, alter its distributive mechanism, and get on board for the ride into the new world. This "soap box" approach has been dying in recent years. The revolt of the masses in the most backward parts of the world has served to sharply remind socialists in the more industrialized countries of the great expansion of production necessary to meet minimum wants on a world scale, let alone the needs of socialist and communist man. Revolutions in countries like Russia and China have emphasized the still unsolved problems in the form of the relation between consumer goods and the rate of accumulation of capital necessary for the expansion of production and the increase in the productivity of labor.

On the other hand, we have become aware of the possibilities of revolutionary changes in the sources of energy and in industrial techniques. (5)

The problem is not one, however, which arises in backward countries alone. There has been a growing awareness in the more industrialized sectors of the world that the problem of socialist reconstruction of society does not lie simply in the area of widening consumption. Social-Democrats in England and on the continent have been faced squarely with the issue. England under the Labor Government faced the problem of an increasingly adverse balance of trade; obsolescence in its stock of capital goods especially in mining and transportation; inability to compete on the world market, etc.

The Social-Democrats renounce nationalization because their variety of nationalization does not solve the primary problem of the expansion of production and the increase of the productivity of labor -- a problem they used to believe had already been solved.

Only in America does the need for a leap in the productivity of labor appear to be lost in the seemingly inexhaustible resources of the American productive machine. Only here can socialists still talk, as in the old days, as if the problem is simply one of equalizing and extending the consumers market. In America alone in the world does the problem of the reconstruction of society on a socialist foundation appear, heavily underlined by statistical portraits of vast surpluses of profit, to be a problem of distribution and not of a qualitative leap in the productivity of labor.

But what do we mean when we speak of a qualitative leap in the productivity of labor? We have an historic example. In the first part of our article on inflation (6) we described in some detail the effects of the industrial revolution which was at the heart of capitalism in its progressive phase. But perhaps the very detail obscured the significance of the process we were attempting to depict. At this point, therefore, we will sum it up in one decisive figure.

According to a Soviet study the productivity of labor, during the first forty to fifty years of the Industrial Revolution in England increased one hundred and thirty times. (7) In the USSR from 1913 to 1959 labor productivity increased about ten times. (8) It will be noted that the base year, because of the low level of productivity existing in Czarist Russia, will show a relatively high percentage increase. It is furthermore a rate of increase for a country which utilized nationalized property and a planned economy to heighten labor productivity at forced march, and succeeded in achieving a rate of increase higher than for any other country during those years. It will finally be noted that we are measuring these rates against past accomplishment, and not future needs -- needs which from a quantitative point of view are of a qualititatively higher order.

And what of the American colossus? We refer to a somewhat more detailed account of the recent history of labor productivity. (9) Here we simply summarize. In the midst of the great hue and cry about automation and the "new industrial revolution," the Commissioner of Labor Statistics has stated that "productivity rose faster from 1919 to 1925 than it did from 1947 to 1953." By 1956, a period certainly long enough to have permitted postwar automation to manifest itself in production, a high government official estimated that productivity had gone up about 1% for that year. Over the long run, estimates on the annual increase of the productivity of American labor range between 2 and 3%.

Thus, in spite of the introduction of automation there has not been an increase in labor productivity anywhere near large enough to justify calling this introduction a new industrial revolution.

The Basic Cause and Dr. Gillman

It is our contention that the fundamental inability of capitalism to revolutionize its technology lies in the falling rate of profit, and not in the limitations of its consumers market. This is so because the rate of profit measures, in value terms, the amount of surplus value available relative to the total existing capital. A declining rate means nothing at all if it does not mean a declining amount of surplus value relative to the capital which must be revolutionized, or made obsolete.

Naturally, in short-run business cycles, temporary excesses of capital appear at a certain phase of the cycle; in the same manner temporary shortages appear at another phase of the cycle. What we are discussing here, however, is not the short-term surpluses or excesses, but the long-term trend measured against total existing social capital.

But we now approach the crucial question. Is there in reality a declining rate of profit in contemporary capitalism? Swabeck makes obeisance to the law in general, but in the concrete he denies its present validity. He tells us that "Precisely this artificial market (the armaments economy, A.P.) created the extraordinary conditions in which the factors counteracting the tendency of the falling rate of profit were the most active." After informing us that not only the mass, but also the rate of profit actually rose, he continues, "Obviously, this phenomenal profit gain, and the great magnitude of realized surplus value that it represents, was made possible primarily by the constantly higher labor productivity." Not only does he depart from the Marxist concept, which holds that the rate of profit will fall despite complete realization of surplus value, but he adds that this rate of profit is real, because it has taken place "on the solid underpinning of the high American labor productivity." (10)

Thus, while in an earlier part of his article he gives formal recognition to the existence of fictitious capital (indeed he traces it precisely to the armaments economy) by the end of the article fictitious capital, like the falling rate of profit, has disappeared. To the key concept of fictitious, as opposed to real capital, we shall return. But before we leave Swabeck, one final point is necessary. As we have seen, he speaks of the armaments economy creating "extraordinary conditions." Let us be clear. At this stage of capitalism the armaments economy is <u>not</u> extraordinary. It is <u>permanent</u>. Therefore, any conditions which are dependent on the existence of the armaments economy, including the increase in the rate of profit, must also be considered permanent for the life of capitalism.

Gillman, on his part, concurs in Swabeck's conclusions, although he arrives at them through a more fully developed road. He appears to offer a wealth of statistical and theoretical confirmation for his viewpoint (11) which we summarize as follows:

(a) The tendency to a falling rate of profit as hitherto understood in the Marxist movement, was valid for America only up to the early part of the twentieth century.

(b) Since that time, the organic composition of capital, i.e., the ratio between constant and variable capital, has either remained stable, or decreased; and with it, the rate of profit has either remained stable, or increased.

(c) Since the major reason for this phenomenon is the "possibility of producing additional surplus-value without corresponding additions to the invested capital," and since, therefore, the "chief form of its (surplus value, A.P.) realization, the conversion into capital" (12) has become impaired, new forms for the realization of surplus value must be found.

(d) Capitalism finds these forms in what Gillman calls <u>u</u>, unproductive expenditures in the general area of consumption in place of investment in capital goods, including the armaments economy.

(e) Capitalism, opposite to its character in the past, has become a "consumption oriented economy."

We are pleased, at the outset, to be able to agree with Dr. Gillman that in the Marxist analysis and in historic fact, the decisive area for the realization of surplus value is in the <u>accumulation of capital</u> and not in the sale of refrigerators to Eskimos. The chief market for capitalist production is the <u>capital</u> market. That is precisely what Marx defined as <u>the historic function of capitalism</u>, production for the sake of production; accumulation for the sake of accumulation. And since the rate of profit is the measure of the ability of capitalism to continue accumulation relative to the existing capital, its tendency to fall is the mechanism through which the existing capital becomes the ultimate barrier to capitalist production itself. Short of the absolute crushing of the working class, the only way capitalism can overcome the declining rate for an important period, is through a qualitative advance in the productivity of labor.

The availability of consumers markets is not the issue. Consumption under capitalism follows and is determined by production, although it naturally always lags behind. Its tendency to catch up, because of the rude intervention of the class struggle into the objective laws of capitalism, an intervention expressed by the constant shares of classes in the national income over a relatively long period, is not a way in which capitalism proportions and balances itself. Increase in the consumers market represented at the bottom by the higher standards of the working class is further pressure on the rate of profit, the mainspring of capitalist production, and not the means by which capitalism has become viable.

But if Gillman is correct in his understanding that the chief market for capitalism is the capital market, another question is posed. If an industrial revolution means anything at all, it means precisely a qualitative extension of the decisive market of capitalism, the capital market. And if, as all parties seem agreed, the technical knowledge necessary for an industrial revolution exists, what is it that prevents the capitalist class from undertaking it?

Surely, once we have succeeded in posing the proper question, we cannot simply ignore the possibility that the major reason might be the relatively low growth rate of the productivity of labor to which we have referred above, in the face of an unprecedentedly huge investment in capital goods. We cannot simply brush aside the estimate that in 1949 it would have taken about 136 billions of dollars just to eliminate obsolete equipment in American manufacturing industry (13), and even after the great investment since then, that in 1958 it would still have taken in the neighborhood of 95 billion dollars, a sum equal to all expenditures on plant and equipment by American business during the three boom years of 1955, 1956 and 1957. (14) We are not, it should be noted, saying that the removal of obsolescence in industry would be the equivalent of an industrial revolution. But it could ease the way.

## The Organic Composition of Capital

We turn here to a closer look at the statistical manner in which Dr. Gillman comes to the conclusion that the organic composition of capital has tended to remain stable, and thus vanish as the market for the realization and accumulation of capital itself. First we define our terms.

Capital is divided into means of production and labor. The relation between them Marx calls the technical composition of capital. In value terms, the former becomes constant, the latter, variable capital. In the process of production the value of the means of production is transferred into the product. The newly created value, the surplus value, comes from labor, or variable capital, which alone possesses the ability to create more value than it itself represents. The rate of profit is, however, calculated upon the total capital, the constant and variable combined. Since historically the constant capital rises relative to the variable capital, other things being equal, the rate of profit falls. It is important to note that for Marx, the rate of profit falls even on the assumption that all products are sold, that there is no problem of market or of realization.

It will thus be seen that the composition of capital is crucial in establishing the rate of profit. But which composition? It is here at the outset that Gillman makes his major mistake. He equates the organic composition of capital with the value composition. He then discovers statistically that constant capital has not risen relative to variable capital, that therefore the falling rate of profit is not operable in mature American capitalism. Marx, however, makes very clear that value composition and organic composition are not equivalent. After defining the two-fold sense in which capital is to be understood, Marx says: "I call the former the value composition, the latter the technical composition of capital. Between the two there is a strict correlation. To express this, I call the value composition of capital, insofar as it is determined by its technical composition and mirrors the changes of the latter (our emphasis, A.P.) the organic composition of capital." (15)

As we shall now see, the value composition of capital over the period which Gillman views does not reflect the technical composition and cannot, therefore, be considered as the crucial organic composition of capital. The absurd conclusions which follow from Gillman's error we will note below.

A U.S. Department of Commerce study informs us that over the last 30 years up to 1958, "the physical amount of capital applied in manufacturing production virtually doubled -- whereas the number of man-hours worked increased by two-fifths. In other words, over this period the amount of capital per man-hour worked increased more than one-third." (16)

A picture of this relationship expressed in current dollars follows:

Average Capital Investment per Production Worker in Manufacturing Industry (17)

| Year | Dollars |
|---|---|
| 1948 | 8,815 |
| 1949 | 9,718 |
| 1950 | 10,423 |
| 1951 | 11,134 |
| 1952 | 11,896 |
| 1953 | 11,697 |
| 1954 | 13,180 |
| 1955 | 13,830 |
| 1956 | 15,006 |
| 1957 | 15,866 |
| 1958 | 17,900 |
| 1959 (first half) | 17,800 |

The figures on variable capital upon which Gillman bases his conclusions covers a period in which wage increases and a shortening of the hours of work were important. That is why his figures do not and cannot represent a true account of the organic composition. We know, of course, that historically it is precisely such a drive on the part of the working class which is one of the chief factors in substituting capital for labor, thus increasing rather than decreasing the organic composition as Gillman would have it.

Furthermore, on this basis, Marx in listing the counter-tendencies to the falling rate of profit, missed the most important one of them all, the tendency of wages to rise. Thus, the most effective means which the capitalists possess to overcome the falling rate of profit would become their ability to raise wages. This absurd, but inescapable conclusion actually does appear later in Gillman's thesis, though in a different form.

Up to now we have discussed variable capital. Now we turn to the other factor in the organic composition, constant capital. Part of Gillman's thesis is that the elements of constant capital have become cheaper, that the new technology is capital saving. And it is true that studies show that the capital coefficient, i.e., the ratio of capital to output, has tended to decline for a period commencing after 1919. A study of this period for America and Germany leads one to suspect that a great deal of this decline was due to the wholesale reorganization of existing capital in the form of the rationalization movement, which did increase output, as well as the productivity of labor, with little or no corresponding addition of capital. But this was after all, a special and limited situation, a sort of catching-up process which the USSR appears now to be entering. More recent studies coincident with the development of automation, begin to show a clearly different tendency. Here, for example, are some figures introduced into a recent hearing of the Joint Economic Committee of the U.S. Congress. (18)

Annual Percentage Rate of Change

| Years | Output per Unit of Tangible Capital |
|---|---|
| 1945-46 | - 6.5 |
| 1946-47 | - 2.4 |
| 1947-48 | - 1.4 |
| 1948-49 | - 4.6 |
| 1949-50 | + 5.5 |
| 1950-51 | + 0.3 |
| 1951-52 | - 0.3 |
| 1952-53 | - 0.2 |
| 1953-54 | - 4.4 |
| 1954-55 | + 5.7 |
| 1955-56 | - 1.2 |
| 1956-57 | - 1.9 |

Over the whole period, the tendency for the capital coefficient to rise, i.e., for output per unit of capital to decline, seems fairly clear. Two Soviet economists viewing these developments, conclude that "due to the employment of new technology, the value of fixed productive capital is increasingly rising relative to the value of the product." (19)

Thus, after closer scrutiny, Gillman's conclusions on the stable or decreasing organic composition of capital does not hold up, either with regard to the cheapening of the elements of constant capital, or in relation to his method of treating variable capital. The organic composition of capital is rising, and will continue to rise.

Common Sense to the Rescue

All the foregoing notwithstanding, does not the stubborn fact remain, a la Swabeck, that the armaments economy serves as the chief means of realizing excess surplus value? Isn't it furthermore true, and confirmed by Walter Reuther, that the capitalists are swimming in an unprecedented ocean of profits?

Here too the impressionistic reaction characteristic of the underconsumptionist view becomes apparent. Under the pressure of common sense, the major function of the armaments economy has gradually been forgotten, and its incidental function becomes transformed into its chief reason for being. The task of the armaments economy is not to provide a market for the realization of surplus value, but to prepare to wage a winning war. The function of war, in the period of the death agony of capitalism, is not to destroy or use up capital, but to accumulate more capital. This it does either by direct appropriation of industrial capital, establishing sources of more and cheaper raw materials and labor, opening areas for the more profitable accumulation of capital through investment. More and more the character of war evidences a return of the dying system to a mode of accumulation characteristic of its origin -- primitive accumulation. It is precisely the falling rate of profit especially at this stage of its operation which makes it necessary for capitalism to go beyond internal generation in order to expand production on the necessary scale. One has only to consider in this light the goals and activities of Nazi Germany during the last war to see a vivid demonstration of this underlying reality. It will be remembered that their plan called for the physical and geographic integration of all existing industrial capital on the continent of Europe into German capital, while Europe itself was to be turned into an agricultural hinterland and a source of cheap labor.

Paradoxically, yet with a strange and deadly logic of its own, the only area in which one might conceive of the actual industrial revolution is in the technology of slaughter and destruction. Here the productivity of labor and the organic composition of capital has risen to horrifying heights. And yet this technology has outstripped its function, like the monster of Frankenstein. That is why a spokesman for an increasingly decisive section of the American bourgeoisie, George F. Kennan, has called for the outlawry of atomic weapons and the return to conventional means of warfare. Subjectively it might appear that they fear the terrible slaughter of human beings. Objectively they speak for the laws of capitalism -- to accumulate capital, not to destroy it. War under capitalism remains a mode of accumulation and not a mode of consumption. The armaments economy is an overhead cost of external accumulation, and not a means of realizing excess surplus value generated within the productive process.

And what of the bloated profits of American capitalism? Fictitious capital is not a phenomenon which has appeared coincident with the appearance of the armaments economy in mature capitalism. Marx already described it in the third volume of Capital in relation, among other things, to the appearance of a plethora or glut of capital. Gillman quotes a footnote of Marx (20) which denies out of hand the possibility of a permanent overabundance of real capital. This of course is directly contradictory to the whole of Gillman's thesis. But both he and Swabeck have a responsibility to Marxist theory which they make no attempt to fulfill. That is, they have the obligation to think about the nature of the relationship of fictitious capital to the laws of motion of capitalism. They must seek the answer to the question: From what inner need of capitalism does fictitious capital spring, and how does fictitious capital manifest itself?

<u>Is it not conceivable that the falling rate of profit, precisely when it seemed to disappear at the turn of the century, found its expression in a rising proportion of fictitious capital, which was in turn manifested by the secular inflation which began just around that time?</u>

<u>The Real Confirmation of the Falling Rate</u>

It is in the process of the statification of production that the real proof of the existence of a falling rate of profit is to be found. And it is the failure of Gillman to place his study within the framework of this overriding reality which in the last analysis is the basic cause of his monumental mistake.

Historically, the capitalist state first moved into the arena of production in those sections of the economy which had the highest organic composition because of the huge amounts of capital necessary. Thus communication, transportation, and public utilities are generally the first to be statified. The generally lower rate of return in these industries at the time of nationalization is subsidized by the entire nation, with the working class especially contributing to help it participate in the average rate of profit. Marxists more or less accurately defined the economic regimes in Italy and Germany at a later stage of this development, prior to the Second World War, in the phrase "the socialization of the losses."

After World War II, the scarcity of capital, along with political repercussions of the class struggle, forced the state in Germany, Italy, France, England, Austria, etc., into accelerating the pace of the state integration of the economy. This is of course an uneven process, and may temporarily reverse itself, but the dominant trend is clear and irreversible.

Indicative of the direct relation between the statification of production and the rate of profit are the following remarks by the Swedish economist, E. Lundberg: (21) "...What I would like to stress in this connection is the dependence of the relatively high net returns...of private investment on the large public investment expenditures that generally yield low or no returns. I find it a little difficult sometimes, however, to persuade members of Chambers of Commerce and Bankers' Associations that they should be grateful to the government and the municipalities for their generosity in taking over so much of the economy's fixed capital investments having very high capital coefficients and low or no returns -- thereby making private investment more profitable than they otherwise would be."

The ultimate logic of the tendency we have been describing as the falling rate of profit, which makes itself felt in ever-widening sections of the economy, forcing ever greater centralization of capital, is for the state itself to become, in Engels' words, "the collective capitalist." Whether it ever has, or can reach such a stage is for this discussion beside the point.

The point is that those statistical accounts which do not reflect this process, if not its end, are worse than useless. It is not possible at this stage of the development of capitalism to test the validity of the falling rate of profit only within the private segment of the economy.

Of course the pace of development is uneven, and for various reasons is not as advanced in America as in England and on the continent. But unless the ghost of American exceptionalism is still lurking somewhere in the shadows of his methodology, Gillman would have been far better advised to have made his test of the theory on a world scale and in line with the reality of the statification of production.

However Gillman's treatment of the relation of the state to production even at this stage of its development in America, is altogether lacking in adequate recognition. The piddling weight he gives this all-pervading tendency in declining capitalism, is the addition of 75% of government financed facilities installed during World War II to his constant capital account. Without here attempting the complicated task of measuring Federal, state, and municipal participation in capital formation, we at least mention some indicated areas such as: subsidies to shipping,air transport, railroads; mining of metals; construction of roads and dams; the TVA; the PWA and other measures during the depression years, and so on. There is, for example, the question: To what extent does the 8 billion dollar yearly interest payment on the national debt represent, not subsidized consumption, but a huge Federal contribution to private capital formation? (22)

The Department of Commerce does not, unfortunately, make any breakdowns of government spending in these terms. But any serious attempt to study the American economy must involve a revamping of accounts with the role of government, fictitious capital, and developments in capitalism on a world scale kept sharply in mind.

## The Politics of Underconsumptionism

For Gillman, the objective laws of motion of capitalist society have changed it from a system whose historic function, in Lenin's eyes, was to increase accumulation of capital without regard to consumption, into a "consumption oriented economy." "In a fully developed capitalism...the adjustment of capitalist production to the ultimate potentials of the consumer market becomes a compelling force." (23) The reason, as we have noted, is because there is too much capital, too much surplus value, too much profit and there is nothing to do with it. Part of the manner in which "this compelling force" asserts itself are wage increases. But capitalists, Gillman (and incidentally Sweezy) hastens to tell us, cannot accept this state of affairs voluntarily without ceasing to be capitalists.

Here he is actually proposing not only a change in Marxist economics, but in materialist philosophy as well. Capitalists, in materialist philosophy, do not determine or perhaps even understand the laws of motion of their own system. They are agents of capital, capital personified. That is to say, until the socialist society comes into being, men do not determine the mode and motion of their existence, but rather the mode and motion of their existence determines the action of men, including classes of men. Being, in other words, determines consciousness.

But we are now asked to believe that the actions of the capitalist class are no longer in harmony with the objective laws of motion of their society. Their attitudes are apparently based on nothing much more than habits left over from the past when capitalism was an accumulative system. Surely then, there is no objective reason why the capitalists cannot be convinced into acting differently than they do.

This could simplify things considerably for the working class. If increases in the standard of living and higher wages are part of the objective laws of contemporary capitalism, workers can relax and permit the functioning of the laws to convince the capitalists. There are more than several economists, of course, who preach that in the long run unions were really never necessary under capitalism: that its objective laws and the accumulation of capital would have brought workers to their present exalted state, or even higher, if there had never been a strike in the history of the American working class.

Actually the trade-union leaders in this country have long since been convinced of Dr. Gillman's conclusions without having gone through the theoretical preliminaries. Nevertheless, in order to justify their pay checks, they have undertaken a more active role by trying to persuade the bourgeoisie that it is really in line with the laws of capitalism and in the best interests of the preservation of capitalism that wages be raised and hours lowered. Up to now, however, not even Moral Rearmament has yet made materialists out of the capitalist class.

The Marxist explanation of the relatively constant relative shares of classes in the national income, which Gillman adduces as proof of the transformation of the laws of capitalism, is that it is a consequence of the class struggle in which, over the long run, the opponents appear to have been more or less evenly matched. But this question merits a discussion of its own.

War and Socialism

For those who agree with Dr. Gillman that "a war economy is a perverted form of consumer economy" (24), the solution to war, similarly to the answer to the class struggle, is easy. If the function of armaments is simply to consume or realize surplus value, and is not set in motion basically by the need to accumulate, then one needs only to convince the capitalists that their purposes will be just as well served if they should keep producing armaments and dumping them into the oceans. It takes little imagination to fit this analysis into "peaceful coexistence." Indeed Khrushchev in a recent speech (25) took these underconsumptionist premises one logical step further. Why, he asked, produce armaments at all? Since your problem is a market for your surplus value, why not seek it in foreign trade? He went on to indicate that many reasonable capitalists whom he had met agreed that disarmament would not wreck the American economy. And indeed, this is a reasonable approach once underconsumptionist premises are accepted.

But if there is no objective reason why capitalists cannot be convinced to raise wages, and if there is no objective reason why "reasonable capitalists" cannot be convinced to disarm, what objective reason is there for failing to convince them of the inevitability of socialism?

We have now reached the doctrine of "many roads to socialism." Stripped of excess verbiage, capitalism as a "consumer-oriented economy" turns out to be nothing more than a modernized version of an old and familiar concept; the slow, but inevitable self-transformation of capitalism, in accordance with its own innermost laws, into socialism.

These twin doctrines, which also imply the equation of the Soviet Union with a socialist society and drag with them the notion of the self-reform of the bureaucracy, have a growing number of adherents. On the one side, they are emerging from the ranks of the social-democracy and fellow travelers of the Soviet bureaucracy. On the other, they come from the intellectual periphery, and indeed, the very ranks of the bourgeoisie. On the one side, there are the Stracheys, the Coles, the Starobins, the Browders, the Sweezys. On the other, the types like Cyrus Eaton, Seymour Harris, Adolph A. Berle.

In his latest book (26), Berle says that: "If conflict must come about, its inevitability does not lie in the organizational or economic imperatives of either system," and that "Assuming continued peace, in any long view the American and Soviet systems would seem to be converging rather than diverging so far as their organizational and many of their economic aspects are concerned."

Needless to say, the concept that these gentlemen have of the nature of capitalism, of war, and of socialism has nothing in common with the approach of revolutionary socialism. But the political conclusions of underconsumptionism, which would, if accepted, leave the working class naked to its enemies, must give us due warning.

We can ill afford slipshod thinking, least of all in political economy, which gives one inch of cover for the doctrines of underconsumptionism which are so pervasive, especially in America. In this country, they are a prop to the bourgeoisie. In Russia, they are of service to the bureaucracy. Nowhere do they correspond to the interests of the working class.

Detroit
February 24, 1960

FOOTNOTES

1. Dr. Joseph M. Gillman, The Falling Rate of Profit, Dennis Dobson, London, 1957. This book has created quite a stir in intellectual circles, especially those in and around the Stalinist milieu. Science and Society, a quarterly magazine of high caliber for this country, has solicited and received comments from many economists, including Maurice Dobb and Joan Robinson, which have appeared in its issues beginning in 1958 and running through all of 1959.

2. In the U.S., the equation of automation at its present stage with an industrial revolution has almost reached the status of folklore. This is most true in that section of the population which has the greatest faith in the ability of capitalism to survive, i.e., the trade-union leadership. In the USSR it is treated more circumspectly. Note, for example, Bulganin's speech to the Central Committee, CPUSSR in July of 1955: "We are on the threshold of a new technological and industrial revolution, far exceeding in importance the industrial revolutions associated with the appearance of steam and electricity " As quoted by R.W. Davies, Reappraisal of Industry, Soviet Studies, Glasgow University, Vol. 7, No. 3, January 1956, p. 308.

3. Arne Swabeck, Production, Prices, and Inflation, International Socialist Review, Winter 1959, p. 26.

4. The Russian bureaucracy is far too realistic to entertain any such notions except in holiday speeches. Khrushchev, for example, in a speech to the 20th Congress, (Pravda, Feb. 15, Current Digest of the Soviet Press, Vol. 8, No. 6, March 21, 1956) says: "We also have persons who understood the thesis of the gradual transition from socialism to communism as an appeal for immediate realization of the principles of communist society at the present stage...On the basis of such utopian views, a negligent attitude to the socialist principle of material incentives began to take root. There appeared unfounded proposals to speed up the substitution of direct product exchange for Soviet trade... Some wiseacres began to counterpose light industry to heavy industry, assuring us that priority development of heavy industry had been essential only at the early stages of Soviet economic development..."

In actuality, after damning all those who have apparently been raising equalitarian demands as a down payment on the promises (the name of Trotsky interestingly enough crops up in this connection) the bureaucracy has demanded of its economists that they learn more about the operations of the law of value. At the same time as they pretend to be preparing the advance to communism, the law of value is becoming increasingly recognized as the determinant in the level of wages; as the arbiter between the agricultural cooperatives (which significantly now own their own capital equipment) and the city; within the sections of the now decentralized industrial area; and finally, among the nations in the Soviet bloc. Khrushchev has recently introduced a further note of caution by saying that all nations would enter the stage of communism together. To what extent this is caused by internal strain, or by the difficulties involved in working out an "international division of labor" is matter for separate discussion. In any case, the dilemma faced by the Soviet economists is indicated in the following statement:..."We have to explain why the increasing employment of value categories under socialism signifies a declining line of development (of value categories, A.P.) that will terminate when they die away under full communism." This worthy contender for the "how's that again" prize of the year is M.Sakov, The Methodological Foundations of Analysis of Commodity Relationships in Socialist Society, Problems of Economics, Vol. II, No. 8, Dec. 1959, p. 6.

The major causes for the tension in the Soviet economy resulting in the extension of the value categories seem to be: (a) The demands by the working class for more consumers' goods as well as for greater equality in wages, etc. (b) The immediate and potential demands for help from other sections of the Soviet bloc. (c) The competition with the U.S. (d) The fact that the rate of growth, which although far higher than in the U.S., is showing a clear tendency to decline.

The Soviet bureaucracy is demanding that all sections of the economy run at the greatest possible profit (Soviet terminology), and in their drive for increase in the productivity of labor, they have apparently decided that planned prices must, in most cases, give way to value prices in order to increase efficiency.

5. What we are still sadly lacking is adequate recognition and study of what is potentially the most powerful productive force of all, the working class itself. It is commonplace among Marxists to explain that the subjective factor, the attitude of the working class, was of prime importance in establishing the different level of productivity between slave labor on the one hand, and serf and wage labor on the other. Yet here, when for the first time the workers are emerging into history as masters of their own destiny, we are confined to a few lofty generalizations, and on rare occasions at that. There is emerging among bourgeois economists and sociologists, a growing group which is beginning the study of what they call "human capital," but their work, while potentially extremely important, is at its earliest stage. The reasons for the inadequacy in this field on the part of Marxists appear to be: (a) It is still "music of the future," except for a limited period in the early years of the Russian Revolution, and (b), we still tend to be dominated by the idea that the major task of raising the productivity of labor is behind us, and that the problem will be one primarily of distribution. Thus, we tend to think of the working class as an administrative, rather than as a productive, force.

6. The Deep Roots of Inflation, International Socialist Review, Summer 1958.

7. K. Klimenko, Technical Progress in the Period of the All-out Upbuilding of Communism, Problems of Economics, Vol. II, No. 6, Oct. 1959, p. 4.

8. Khrushchev's speech to the 21st Congress of the CPUSSR, Current Digest of the Soviet Press, Vol. XI, No. 2, Feb. 18, 1959.

9. The Deep Roots of Inflation, Part II, op. cit., Fall 1958.

10. Swabeck, op. cit., pp. 24, 25.

11. Gillman, op. cit.

12. Gillman, op. cit., p. 61.

13. Harvard Business Review, Vol. 35, No. 1, Jan-Feb. 1957, p. 22.

14. Business Week, Sept. 27, 1958, pp. 121 et al.

15. Capital, Kerr Edition, Vol. I, p. 671

16. U.S. Income and Output, U.S. Department of Commerce, Nov. 1958, p. 3.

17. Conference Board Business Record, Jan. 1960, Nat'l Ind. Conference Board Inc. Figures for several of the earlier years were taken from a report in the same magazine for March of 1958. There is a slight discrepancy in several of the years which does not affect the general trend. Capital investment is defined as total assets less investment in government obligations and securities in other corporations. Assets are figured at book value and so do not reflect replacement cost. Fixed plant and equipment is included at net values; i.e., accrued depreciation is deducted from the gross cost of such assets.

18. Solomon Fabricant of the National Bureau of Economic Research, in testimony before the Joint Economic Committee in its hearings on Employment, Growth and Price Levels, Part II, Historical and Comparative Rates of Production, Productivity, and Prices, p. 329, Washington, March 20-25, 1959. A somewhat earlier study showed that with 1941 as 100, total output per unit of producers' durable goods dropped by 1952 to an index of 70. (Edward F. Denison, Problems of Capital Formation, Studies in Income and Wealth, Vol. IX, 1957, p. 255.)

19. Y.A. Kronrod -- Special Features of Socialist Reproduction at Its Present Stage, Problems of Economics, Vol. II, No. 8, Dec. 1959, p. 16, n2. He quotes from an untranslated article by Y. Kvashi and V. Krasovsky in Voprosy Ekonomiki, No. 8, 1959.

20. Gillman, op. cit., p. 2, n2. In the Lawrence and Wishart edition of Theories of Surplus Value, this footnote appears on p. 373 and not p. 378 as indicated by Gillman.

21. E. Lundberg -- The Profitability of Investment, The Economic Journal, Quarterly Journal of the Royal Economic Society, Dec. 1959.

22. At this point we should like to refer to the statistical error on our part in Part II, The Deep Roots of Inflation. The error, which Swabeck caught, was in figures dealing with the growing discrepancy between capital investment and social return. Even the adjusted figures which Swabeck uses show a discrepancy in the direction indicated, although not as large as those indicated by the erroneous figure. On the other hand, gross national product includes that portion of capital which has been consumed, and so a smaller figure, net national product, would more accurately have reflected the discrepancy. More important yet, there is no allowance in the figures used for governmental participation in capital formation which would again further enlarge the gap between investment and social return.

23. Gillman, op. cit., p. 156.

24. Gillman, op. cit., p. 157

25. "Some people in the West assert that disarmament threatens grave consequences for the economy of the capitalist countries. However, only people who see no other way of developing the economy than by subordinating it to the interests of preparing for war can reason in this way. The least that can be said about such assertions is that they are completely unsubstantiated. I have had occasions to talk with many representatives of American business circles, and the most reasonable of them have nowhere near so gloomy a viewpoint... (disarmament) would make it possible to sharply reduce taxes on the population, to increase the capacity of the domestic market...And would this not enormously expand the possibilities for a foreign trade freed of artificial restrictions,

dictated by considerations having nothing to do with economic advantage..? "...The necessity for peaceful coexistence is being understood even more clearly not only by the masses at large but by many of the statesmen and political leaders of the capitalist countries." Report at USSR Supreme Soviet, Pravda, Jan. 15, 1960. Current Digest of the Soviet Press, Vol. XII, No. 2, Feb. 10, 1960, pp. 9, 15.

26. Adolph A. Berle, Jr. Power Without Property. Harcourt, Brace and Co., 1959, pp. 147,156.

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