The impact of growing labor productivity: a letter from a WSWS reader

20 August 1999

The following letter was sent by a WSWS *reader. A reply, by* WSWS *editorial board member Nick Beams, can be found at:*
http://www.wsws.org/articles/1999/aug1999/corr-a20.shtml

IM's letter and Beams's reply follow an earlier exchange on the subject of growing US indebtedness. That initial exchange consisted of:

1. Beams' July 8 article, "When will the US 'debt bomb' explode?" [http://www.wsws.org/articles/1999/jul1999/econ-j08.shtml]

2. IM's letter in response to Beams' July 8 article [http://www.wsws.org/articles/1999/jul1999/lett-j28.shtml]

3. Beams' reply to IM's letter [http://www.wsws.org/articles/1999/jul1999/eco-j28.shtml]

Dear Nick Beams,

Thank you for your reply to my letter. Your comments were interesting and informative, as are your articles on the *WSWS*.

My main point on the question of debt levels in the U.S. is that the national identity of the debt-holder is really of no relevance. Capitalists are not loyal to any particular state or currency. Indeed, domestic traders are usually the first to bail out of a particular currency—this is certainly the historical experience in Latin America, as recently as the 1994 Mexican crisis. The fact that foreign holdings of U.S. securities have increased over time can be interpreted as a long-overdue application of the diversification arguments of theoretical finance. If there is a loss of confidence in the U.S. economy, or if European or Japanese investments become more attractive, there will be outflows of capital, irrespective of the distribution of investors' nationalities.

[In your letter you write:]

"You go on to point out that the debt service on US bonds is around $78 billion and less than 1 percent of GDP. I do not consider that the level of debt service in relation to GDP is the central issue. Of much greater significance is the relationship between the influx of foreign capital into the US bond market and the level of the dollar. Despite a widening trade gap, the US dollar has been able to sustain its value in the recent period because of the inflow of foreign capital into the bond and equity markets, an inflow which has ensured that interest rates have not risen."

I'm curious as to your opinion on the level of U.S. interest rates. Interest rates are substantially higher in the U.S. than in Europe or Japan. By historical standards, real rates in the U.S. are certainly not low—much higher than in the 1970s when they were negative for much of the decade. I believe that continued fear about the weakness of non-U.S. economies is the real reason US rates haven't risen further already, not the fact that inflation remains low.

[You also write:]

"However, if the trade deficit continues to widen at its present record rate, and doubts emerge about the dollar's value, then there can be a very rapid movement of these funds out of U.S. bonds. Such a movement would bring an escalation in interest rates, leading to a possible plunge in the share market and a further fall in the dollar. It is worth recalling that on the last occasion there was a major crisis of confidence in the dollar, during 1978-79, US interest rates were hiked up to more than 20 percent in the early 1980s, leading to the deepest recession in the post-war period. In today's far more highly-leveraged conditions, in which industrial corporations and financial institutions alike have borrowed vast amounts of money in order to buy stock, the consequences of anything approaching such a interest rate rise would be even more severe."

But I'm not inclined to think that the interest rate hike will be nearly as large as in 1978-79, because the reasoning behind that hike was that inflation had to be ended. I concur that the high levels of leverage, especially in the financial sector, are very troubling. However, one suspects that the Federal Reserve will be willing to increase the U.S. money supply to moderate the rise in U.S. interest rates, which will allow U.S. corporations breathing space while they enjoy increased foreign revenues from the fall in the dollar. This of course is precisely the policy path that other countries cannot follow because the U.S. dollar is the world's reserve currency.

[You also write:]

"Broadly speaking, the crisis centres on the fact that while information technology and other innovations vastly increase the amount of material wealth which can be produced, these same processes work to depress the rate of profit and consequently the rate of capital accumulation. This contradictory result is rooted in the very structure of capitalist social relations. While the ultimate source of all profit, interest and rent is the surplus value which is extracted from the working class (the wage workers employed by capital), the development of new technologies in the drive to reduce costs leads to the diminution of living labour in the production process.

"But because living labour is the source of all surplus value, the mass of surplus value available to capital tends to decline. In other words, the greater the productivity of labour, the more difficult it becomes for capital to secure sufficient profit to expand at a given rate."

I must confess that I've never been able to understand what Marx really intends on this point. As I read *Capital*, the rate of surplus value is exogenous (at least most of the time). That is, a worker takes a certain of time to produce enough to pay his wage (Marx sometimes appears to follow Smith and Ricardo in assuming this is a subsistence wage, at least in the long term, but I'm not clear on this either), and the rest is available for production of surplus value.

In this framework, the only way to increase the production of surplus value is to reduce wages. Technological improvement makes it possible to produce greater quantities of output, but since we're following the labour theory of value, the value of this greater output is no more than the previous level of output because the level of labour input is unchanged. If we reduce the labour input, the value will actually fall.

But technological improvement will also reduce the amount of labour required to produce the labourer's subsistence, so technological change will in fact alter the rate of surplus value. That is, the rate of surplus value is not exogenous when we look at the production process as a whole. It is dependent on the production technology. The fundamental measure in the LTV should be not a unit of worker's time, but rather the amount of time required to produce the worker's subsistence.

My fundamental confusion is that I find Marx unclear as to which of the fundamental measures he actually follows. (In general, I believe he uses both, using the unit of worker's time formulation when he wants to keep things simple to make it easier for the reader to understand his point. But I think that in his long term analysis he uses the unit of time formulation when he should use the subsistence formulation.) When we measure value in relation to the amount of labour required to produce the worker's subsistence, it becomes much less clear that profit rates must fall. As long as technological progress is made, more surplus value is created, and despite capital accumulation the profit rate can be maintained. If technological progress ceases, then indeed the accumulation of capital will lead to competitive pressure that reduces the profit rate. As far as I can tell, Marx is implicitly assuming that technological progress cannot be sustained at a level that would prevent the profit rate from declining. I would hazard a guess that almost 150 years after *Das Kapital*, the profit rate is much the same as it was in 1867, suggesting that we need to rethink this assumption.

(On a slightly related point, I can recall reading reports in the business press about how profits as a share of GDP are falling. This of course is due to confusion between debt and equity—as leverage increases, profits as a share of GDP naturally declines. But the return on capital as a whole, which is what is actually important, need not decline, and has not. The European data in particular is remarkable for the increase in capital's share of GDP.)

Anyway, I hope you can clarify this for me. I've read several of the discussions on this point on the *WSWS*, and my confusion persists.

Sincerely,

IM