

# Correspondence on the breakdown of the profit system

1 November 1999

*The following exchange concerning the breakdown of the profit system is part of an ongoing correspondence between Nick Beams, a member of the World Socialist Web Site Editorial Board, and WSWs readers over questions of Marx's political economy.*

To the WSWs:

I have been following with some interest the ongoing discussion between Nick Beams and IM concerning the profit system. I find Mr. Beams' writings to be quite clear and thought-provoking, but several elements of this latest reply appear a bit superficial. I offer the following questions and observations in the hope that Mr. Beams can deepen his argument a bit.

1. Beams writes: "The question which must be answered is why, in the midst of what is undoubtedly a tremendous increase in labour productivity, we find that in every country, the social position of the majority of the population is worsening."

Is this actually empirically true? In every country? In what time frame? It seems to me that here in Norway, for example, the "social position" of the majority of the population (if by that we mean any standard measure of "quality of life") is higher now than it was 25 years ago, 50 years ago, or 100 years ago (to take three time frames at random). The "increased impoverishment" that Beams speaks of is not a universal phenomenon, and any thorough analysis of capitalism would have to take this into account. Furthermore, is this "worsening" a linear and irreversible historical phenomenon? Has the "social position" been continuously worsening for a century? At what rate? Or, rather, has it fluctuated, up and down, at different rates, at different times, in different places? Is not the task, then, to demonstrate a significant *trend*?

2. Beams quotes IM as writing, "Readers can ask themselves if this accords with their own sense of value," and then continues, "Let us grant that it contradicts their own sense of value, that it does not accord with their perceptions of the operations of the profit system. Does this settle the matter? Is it not the case that a scientific analysis is necessary precisely because everyday or common-sense assessments of economic and social relations cannot produce a true picture of objective reality?"

I think that perhaps Beams is missing IM's point here. What is at stake throughout most of this argument is the definition of the term "value." We need to recognize from the outset that in *Capital*, Marx is re-defining this term to have a specific meaning, which is *not* identical to the everyday meaning of the term, and we must be vigilant to make sure no slippage between the meanings occurs. This will become clearer below.

3. Beams writes: "To take the most obvious example: Every capitalist knows, if he knows anything at all, that the road to increased profits is the introduction of new methods of production which reduce labour costs in the production process."

This is an unfortunate simplification—"every capitalist" knows no such thing. There are many roads to increased profits, and certainly the reduction of labour costs is among them—but it is by no means the only road, especially in a post-Fordist economy. I work in an industry where the labour costs are relatively fixed and of no major concern. The cost of

our raw materials, on the other hand, is significant, and therefore the productivity (and efficiency) of the workers is of the utmost importance. We would gladly pay more in labour costs if we could offset this by lower overall production costs. (Of course, since the raw materials are commodities themselves, they can be considered as "labour costs," but to do so would be to assume precisely that which Marx is endeavouring to prove.)

4. Beams writes: "A commodity is both a use value—a particular good which satisfies a definite want—and a value. Its use value is determined by its physical characteristics. Its value, as revealed in the act of exchange with another commodity, is determined by the amount of socially necessary labour time it embodies. Consider the simplest form of the exchange relation: 1 coat = 20 yards of linen. This equation tells us that embodied in the coat and linen are equal amounts of socially necessary labour."

Note that this definition of the term "value" is *not* identical to "exchange value." Again, there is some serious question-begging going on here. The equation "1 coat = 20 yards of linen" (where "=" stands for "is exchanged for") does *not* necessarily tell us anything about "socially necessary labour time" at all. All that it means is that at this point in time, I am willing to give up a coat in exchange for 20 yards of linen. If, at another time, I can get 25 yards of linen, the amount of "socially necessary labour time" embodied in the coat has not changed—it only means that prevailing market conditions have. Marx's notion of "value" is *not* identical to "exchange value", or price.

5. Beams writes: "If the productivity of labour increases, then more use values will be created in one hour, but the value produced in that hour will remain the same."

Again, the "value" produced in that hour will, by definition, remain the same. The use value will increase, but (and this is crucial) *so will the exchange value*. If I can produce 2 coats in an hour where I previously produced only one, I have doubled not only the use value but also the exchange value (provided I can sell them both at the same price).

6. Beams writes: "The surplus value, which is extracted by the capitalist in the process of production, will be embodied in the accumulation of commodities. An increase in the productivity of labour will lead to production of more use values. But these commodities may well embody less surplus value than they did previously."

All of what I said previously concerning "value" of course applies to "surplus value." Just as we need to make a distinction between "value" and "exchange value" or "price", we need to distinguish between "surplus value" and "profit". The statement above by Beams is true—by definition. It is tautological.

7. Taking the above points together, my argument is as follows: Marx developed a specific terminology to support his theories. The terminology is coherent and consistent, and it is very easy to produce statements such as those given above that are definitionally true. What is interesting (and important), however, is to move beyond the merely tautological and begin to make substantive arguments about capitalism as it functions today.

This brings us to the substance of Beams' latest response. Beams writes:

"Marx demonstrated why, at a certain point, an increase in labour productivity must tend to diminish the accumulation of surplus value. He showed that the proportionate increase surplus value arising from a given increase in labour productivity would tend to diminish, the greater had been the previous development in labour productivity."

What is left unexplained in this statement is the specificity of the "certain point." When, precisely, do we reach that "point"? And, furthermore, would this "point" truly mark a crisis for capitalism? Because "surplus value" is not equivalent to "profit," a fall in the rate of surplus value can be offset in other ways: for example, by altering the price of a commodity, or by increasing demand for it.

Beams explains his case hypothetically as follows:

"On the basis of this analysis, I have sought to demonstrate that technological innovation in the present period tends to bring about a decrease in the mass of surplus value precisely because of previous developments in the productivity of labour. Put simply the argument is this: when the productivity of labour is low and it takes the worker 6 hours out of every working day of 8 hours to reproduce the value of his labour power (necessary labour) and surplus labour comprises just 2 hours, capital has a vast field for expansion before it by converting necessary labour time into surplus labour through the introduction of new technology. But under conditions where necessary labour time has already been reduced to say 1 hour or even half an hour and less, then further reductions will only bring a very small increase in surplus labour."

This is a perfectly reasonable analysis. The only remaining question is: if we attempt to move it from the hypothetical to the empirical, what is the current amount of surplus labour produced in the average 8-hour day? Are we at 2 hours, 1 hour, half an hour, or less? This is an empirical question, and should be answerable empirically. At present, where do we stand? If you wish to argue for an impending (or ongoing) crisis, the identification of this fact is necessary. And, unfortunately, it is missing from the analysis so far.

Yours sincerely,

MD

Dear MD,

In answer to your first point on whether "we find in every country, the social position of the majority of the population in worsening" let me point to some relevant findings from some recent reports.

The report on the *State of Working America 1998-99*, published by the Economic Policy Institute, found that despite a 2.6 percent annual real wage gain since 1996, median wages were still below their level in 1989 and the typical family had to work an additional six weeks to maintain its standard of living.

According to the EPI press release on the report: "Putting recent economic gains in historical context, the study finds that the living standards of most working families still have not recovered from the recession of the early 1990s, nor have their wages kept pace with the growth in productivity. The income growth that has been generated among middle-income families has been driven largely by an increase of working hours—an additional six weeks annually for the typical family since 1989—to make up for the long-term deterioration of wages. The economic realities facing the typical American family over the 1990s include, increased hours of work, stagnant or falling income, and less secure jobs offering fewer benefits.

"New groups of workers have experienced wage declines in the 1990s, including recent college graduates and many information-technology and other white-collar workers. Women workers in the middle and upper-middle part of the wage distribution, whose real wages rose significantly in the 1980s, have experienced a sharp deceleration in the 1990s."

The study found that wages for the bottom 80 percent of men were lower in 1997 than in 1989, with the median male worker's real wage

having fallen 6.7 percent.

A report on Canada, which is rated first in the United Nations Human Development Index, published by the Centre for Social Justice entitled *The Growing Gap*, found that some 60 percent of families with children are earning less real income than they did in 1981.

A recent study on the Australian economy by D Bryan and M Rafferty entitled *The Global Economy in Australia*, found that compared to 1984: "Real disposable incomes were lower in 1994 for all but the highest quintile [the top one fifth of households], despite the growth in two income households."

Consider the situation for the majority of the world's population in the so-called "developing countries." The 1998 UN Human Development Report found that of the 147 countries so defined some 100 had experienced "serious economic decline" over the past 30 years. In the period 1965-1980 some 200 million people experienced falling per capita incomes. In the period 1980-93 this figure had risen to more than 1 billion.

You attempt to dismiss the growing empirical evidence on the decline in living standards with a series of questions. "Has the 'social position' been continuously worsening for a century? At what rate? Or, rather, has it fluctuated, up and down, at different rates, at different times, in different places? Is not the task, then, to demonstrate a significant *trend*?"

I have never asserted that the living standards of the broad masses of the world's people has declined for the past half century or longer. What has to be analysed is why have living standards been experiencing a continuous decline over the past 20 years. In the 30-year period after the end of the Second World War there is no question that the living standards of broad sections of the population in the advanced capitalist countries and to some extent in the so-called "developing" countries improved. In the past period and throughout the decade of the 1990s a reversal has taken place.

What is to account for this trend? I have sought to demonstrate that it is bound up with broad economic processes rooted in the contradictions of the capitalist mode of production. The post-war economic boom was the outcome of an expansion of surplus value accumulation arising from developments in the productivity of labour. Today, however, increases in labour productivity, for reasons which I outlined, fail to bring an expansion in the overall mass of surplus value and profits.

In the post-war period increases in productivity tended to bring about an overall expansion of capitalist accumulation, leading to greater employment and rising wages. Now, the very development of labour productivity brings an ever more intense struggle between the major capitalist corporations to accumulate profits, leading to downward pressure on wages, and social welfare systems.

Political considerations also play a decisive role. In the years following the war, fear of the political consequences of a return to the conditions of the 1930s saw the implementation of social welfare measures by the ruling classes in all the major capitalist countries. Now these programs are being reversed in conditions where the ruling classes have been emboldened by the collapse of the program of national reforms of the unions and social democratic parties and the political confusion and lack of an alternative perspective which presently prevails in the working class.

Perhaps, this process has yet to reach Norway. I do not have immediate information on this question, but I somehow doubt it to be the case. But even if that is so, it will not be long in coming. Allow me to draw attention to a report of an interview with the outgoing president of the German Bundesbank, Hans Tietmeyer, published in the *International Herald Tribune* of August 23.

"Not all Europeans are aware of it yet, Hans Tietmeyer says, but their currency union has helped usher in a 'competition society' in which a new strain of economic dynamism challenges traditional welfare systems.

"In this new era, euro-bloc nations will see their national systems of welfare benefits and tax levels thrust into rivalry against each other...

Competition on wage levels will be 'inevitable'. Small and medium-sized companies across Europe are exposed to 'tougher' competition, just as big automakers already have been."

According to Tietmeyer, there will be competition between tax systems "just as between social systems." "Welfare systems must be competitive. They are increasingly coming into competition". This new competitive environment would be "forever" and there would be "no going back."

In other words, if they have not already done so, working people across Europe are now going to experience the cuts in real wages and jobs and the type of savage cuts to social welfare, health and education facilities already experienced over the past decade and a half in countries such as the US, Britain, New Zealand and Australia.

In my exchange with IM on the crucial issue of value, I insisted that it was necessary to make a scientific analysis as opposed to "common sense" assessments which deny any possibility of a crisis in surplus value accumulation because the quantity of material wealth increases with the development of the productivity of labour.

In response you write: "I think that perhaps Beams is missing IM's point. What is at stake throughout most of this argument is the definition of the term 'value'. We need to recognise from the outset that in *Capital*, Marx is re-defining this term to have a specific meaning which is *not* identical to the everyday meaning of the term, and we must be vigilant to make sure no slippage between the meanings occurs."

The assertion that Marx begins with a "definition" or a "concept" of value is not a new one. It was in fact raised by one Adolphe Wagner during Marx's lifetime. Marx's reply clarifies the issues at hand.

"In the first place," Marx writes, "I do not proceed on the basis of 'concepts' [or definitions NB] hence also not from the 'value-concept' [or definition of value NB], and I do not have the task of 'dividing' it up in any way, for that reason. What I proceed from is the simplest social form in which the product of labour in contemporary society manifests itself, and this is as 'commodity'. This is what I analyse, and first of all to be sure in the *form in which it appears*. Now I find at this point that it is, on the one hand, in its natural form a *thing of use-value*, alias *use-value*, and on the other hand that it is a *bearer of exchange-value*, and is itself an exchange-value from this point of view. Through further analysis of the latter I discovered that exchange-value is only an 'appearance-*form*', an independent mode of manifestation of the *value* which is contained in the commodity and then I approach the analysis of this value." [*Value, Studies by Marx*, New Park Publications 1976 p. 214]

As Marx makes clear, he begins not with a definition but the most basic relationship of commodity society. The issue which Marx addresses is the following: what is expressed in the relationship  $x \text{ commodity A} = y \text{ commodity B}$ , for example, 1 coat = 20 yards of linen?

This exchange relationship tells us that embodied in the coat and the linen are equal amounts of a common substance—the amount of labour which it has taken on average to produce them.

You write that the value is not identical to exchange value and that at one point of time I may receive 20 yards of linen for 1 coat whereas at another time I may receive 25 yards of linen.

"If, at another time, I can get 25 yards of linen, the amount of 'socially necessary labour time' embodied in the coat has not changed—it only means that prevailing market conditions have. Marx's notion of 'value' is *not* identical to 'exchange value', or price."

What you say is perfectly true. The equation 1 coat = 20 yards of linen does not tell us how much socially necessary labour is embodied in the coat. It is also true that value is not identical to exchange value or price. The 20 yards of linen is the appearance-form of the value of the coat. The value of the coat cannot show itself or appear in any other way. Taken by itself the coat has a value. That is, it embodies a definite amount of socially necessary labour. But, as Marx put it, twist and turn the coat as much as we like, we cannot find an atom of value in it. Only when the

coat confronts the linen in an act of exchange can its value appear—in the form of 20 yards of linen.

Of course, the appearance-form of the value of the coat, that is, its exchange value, can and will change. At one point 1 coat = 20 yards of linen, at another 1 coat = 25 yards of linen, even though the amount of socially necessary labour embodied in the coat, its value, has not changed.

You maintain that these changes in the exchange value of the coat reflect changes in "prevailing market conditions". But this immediately raises the question: what determines these changes?

If 1 coat now exchanges for 25 yards of linen (under conditions where the coat still contains the same amount of labour as before) this tells us that the productivity of labour in linen production has increased. If in the past 25 yards of linen are now produced in 1 hour, while the productivity of labour in coat production remains the same then the appearance-form of the value of the coat, its exchange value, will now be 25 yards of linen.

Market conditions have changed. But these changes are themselves determined by value relations.

In my reply to IM I pointed out that if the productivity of labour increases—suppose that 2 coats are now produced in 1 hour—then while more use values, that is material wealth, have been created, the value produced in that hour remains the same.

You reply: "If I can produce 2 coats in 1 hour where previously I produced only 1, I have doubled not only the use value but also the exchange value (provided I can sell them both at the same price)."

In other words for the expenditure of 1 hour of labour time, embodied in 2 coats, the coat producer will receive 40 yards of linen embodying 2 hours of labour time.

That may well be the case for an individual producer for a limited period of time. However if the same quantity of linen is produced as before there will be a surplus of coats on the market and the exchange value of coats will fall, until the new equilibrium is reached when 1 coat exchanges for 10 yards of linen.

The fact that the coat producer may, for a limited period of time, be able to receive back from the market commodities embodying a greater amount of socially necessary labour time than was expended, points to the fact that the drive to develop the productivity of labour under capitalism is inherent in the structure of commodity exchange relations. By raising the productivity of labour above the social average, an individual producer may be able to withdraw from the market commodities embodying a greater amount of labour than was expended. However, eventually the more productive methods will spread and exchange value will fall.

In my discussion with IM, I reviewed Marx's analysis of the tendency of the rate of profit to fall and pointed out that while this tendency could be overcome by increasing labour productivity, there are definite historical limits to this process and that at a certain point increases in labour productivity must tend to diminish, rather than increase, the mass of surplus value extracted by capital.

You reply that even if this point is reached, it may not mark a crisis for capitalism.

"Because 'surplus value' is not equivalent to 'profit', a fall in the rate of surplus value can be offset in other ways: for example, by altering the price of a commodity, or by increasing demand for it."

As in your disagreement on the question of value, you introduce the market as a kind of *deus ex machina* which overcomes the crisis of the profit system. Your argument exhibits the so-called "fallacy of composition". That is, you proceed from the standpoint of a particular capitalist and, finding that a single capitalist (or perhaps even a group of capitalist firms) can increase their profits in the ways you suggest, you then generalise your result to the capitalist system as a whole.

To be sure, an individual capitalist firm may be able to increase its profits, or maintain them at the previous level, by raising its prices—provided it enjoys monopoly conditions which prevent the entry of

other firms into its industry. But even if it is successful, the increased prices it charges will mean increased costs for the firms which purchase its commodities, thereby lowering their profits. In other words, while it may be possible for individual firms to maintain or increase their profits, the mass of surplus value available to the capitalist class as a whole will not increase. It will merely have been redistributed among the different sections of capital.

Your postulate of an increase in demand also provides no solution. There are two sources of demand: the consumption of workers and the demand of other firms. If the demand of workers is increased this means that wages will have to rise and profits will be reduced.

An increase in demand from other capitalist firms—a rise in productive consumption—implies that these firms are increasing their investment as a result of increased profits. In other words, increased demand is not the cause of an increase in profit, but a consequence of such an increase.

Of course, demand may also increase as a result of growing indebtedness on the part of both workers and capitalist firms. This is very much the source of the current economic expansion in the United States. But increased debt, while it may postpone a crisis resulting from a fall in the accumulation of surplus value, cannot resolve it. Increased debts imply greater claims on future surplus value. Consequently, while providing a short-term solution, growing indebtedness will create the conditions for the eruption of an even bigger crisis in the future.

The only way in which the growth of debt could resolve the crisis is if it finances new methods of production which increase the overall mass of surplus value. However, if, as we have postulated, labour productivity has already developed historically to such a point that further increases only bring a decline in the overall mass of surplus value then increased indebtedness to finance new production methods will intensify the crisis of the profit system as a whole.

The introduction of new methods may well increase the profit of an individual firm by lowering its costs of production to below the social average. But this increase in profit will not take place as the result of a general expansion in the mass of surplus value. Rather it will be achieved at the expense of its rivals.

You ask at what point have we arrived in the development of labour productivity. Does the worker reproduce the value of his or her labour power in 2 hours, 1 hour or even less? That would be an interesting field for research. Unfortunately such statistics are not readily available.

However, I would venture to suggest that any study of modern industry would show that the worker reproduces the value of his labour power in a relatively short period of time. In any case, the point I am trying to illustrate is the long-term tendency of development.

While I do not have empirical data available, the analysis I have advanced does provide an explanation of clearly observed historical tendencies. There is no question but that the extension of the assembly-line methods of production, first developed in the United States, to the rest of the advanced capitalist countries in the post-war period lowered necessary labour time and brought about an expansion in the mass of surplus value.

The no less far-reaching technological innovations associated with computerised methods of production have also raised the productivity of labour and lowered necessary labour time. But because of the previous increases in labour productivity the effect of these innovations is different. No longer do they bring about an increase in the overall mass of surplus value and a consequent expansion of the profit system. Over the past decade we have seen vast developments in labour productivity. But growth figures for the US, Europe and the other advanced capitalist countries in the 1990s are below the levels of the 1950s and 1960s and even for the 1970s. With the introduction of assembly-line methods, we saw increases in wages, expanding sales and profits. Today, the introduction of new methods brings rising unemployment, the destruction

of well-paid full-time jobs and the stagnation and lowering of real wages.

Despite the massive increases in productivity, every capitalist government is engaged in the continuous reduction of services in the fields of health, education and social welfare. This decline in the social position of broad masses of the population is not so much the outcome of policy decisions by governments. Rather, these policies are themselves the expression of a crisis in the accumulation of surplus value—a crisis which strikes at the very heart of the capitalist system.

Yours sincerely,  
Nick Beams



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