Marxism and the political economy of Paul Sweezy

Part 2: The Theory of Capitalist Development

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7 April 2004

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This is the second part of a series of articles by Nick Beams, a member of the International Editorial Board of the World Socialist Web Site, *dealing with the life and work of radical political economist Paul Sweezy, founder-editor of the* Monthly Review, *who died in Larchmont, New York on February 27, 2004.* Part 1 *was published on April 6.*

Paul Sweezy's views on political economy were to become central to what might be called the *Monthly Review* school. They were initially formed in the latter part of the 1930s, as he began to come to grips with Marx's analysis.

Sweezy's first and, in many ways, most important work, *The Theory of Capitalist Development*, arose largely out of a process of self-clarification. It had its origins in classes he conducted on the economics of socialism, which included an examination of the theories of various socialist writers. As Sweezy later recounted, in the course of the graduate seminars he sought to raise the level of treatment of Marx, discovering that it involved a "long hard struggle to overcome the traditions and inhibitions of a neoclassical training.... It took me a long, long time before I could accept the Marxist labor value theory because I was totally accustomed to the type of thinking of marginal utility price theory, and so on. And ... for a long time, I couldn't see how there could be another kind of value theory with totally different purposes." [4]

But *The Theory of Capitalist Development* was not simply a presentation of Marx's ideas. In it, Sweezy was to sharply differ with Marx's analysis of the law of the "falling tendency of the rate of profit". Since his treatment of this question is intimately bound up with his political orientation and his analysis of American capitalism in *Monopoly Capital*—a work that was widely read during the political radicalisation of the late 1960s and early 1970s—it bears close examination.

The tendency of the rate of profit to fall

The tendency of the rate of profit to fall was an observable phenomenon of capitalism well before Marx. The Scottish political economist and philosopher Adam Smith (1723-1790) put it down to increased competition: as the capital stock increased, so production increased, leading to greater supply, increased competition and lower prices, and consequently a fall in profits.

According to David Ricardo (1772-1823), as capital expanded and the workforce increased, agriculture also expanded. This meant that less fertile land was used to grow the food necessary for the increased workforce. Lower fertility of land meant an increase in the cost of food, resulting in higher wages and therefore lower profits.

Marx rejected both of these explanations. The tendency of the rate of profit to fall arose neither from increased competition (Smith) nor lower productivity in agriculture (Ricardo). It was, rather, the expression under capitalism of the increased productivity of labour.

Marx's analysis in Volume I of his masterpiece *Capital* demonstrated that the sole source of surplus value—the basis of profit, rent and interest—was the difference between the new value added by the worker in the production process, and the value of the commodity which the worker initially sold to the capitalist—his labour power or capacity to work. While the commodities needed to sustain the worker and his family (food, clothing, housing etc.) may embody, say, four hours of labour, the worker was employed for eight, ten or twelve hours. This difference constituted the source of surplus value.

But there is a contradiction, Marx explained, in the accumulation process. The fact that capitalist production expands, and the social productivity of labor develops, means that each worker, in the same period of time, turns an ever-greater mass of means of production into commodities. The value of these means of production (or constant capital) is preserved in the commodities that result from the production process, while the living labour (or variable capital) actually adds value. This living labour is the sole source of surplus value. But this means that, as the productivity of labour develops, the proportion of constant capital to variable capital (the organic composition of capital) tends to rise.

As the productivity of labour develops, the same amount of living labour sets in motion a larger mass of capital, meaning that the surplus value extracted in the production process has to expand an ever greater mass of capital. This is the origin of the tendency of the rate of profit to fall.

"Since the mass of living labour applied continuously declines in relation to the mass of objectified labour that it sets in motion, i.e. the productively consumed means of production, the part of this living labour that is unpaid and objectified in surplus value must also stand in an ever-decreasing ratio to the value of the total capital applied. But this ratio between the mass of surplus value and the total capital applied in fact constitutes the rate of profit, which must therefore steadily fall." [5]

Explaining the law of the tendency of the rate of profit to fall, Marx drew out that there were many countervailing tendencies set in motion by the development of capitalism itself. As Marx remarked, given the enormous development of the productivity of labour "instead of the problem that occupied previous economists, the problem of explaining the fall in the profit rate, we have the opposite problem of explaining why this fall is not greater or faster." [6]

One of the most important countervailing factors is the tendency of the rate of surplus value (measured by the ratio of unpaid labour to paid labour in any working day) to increase, with the development of the productivity of labour. This means that while the mass of constant capital to variable capital may increase, thereby tending to reduce the rate of profit, the increase in the rate of surplus value will tend to increase the profit rate. It was on this issue that Sweezy based his opposition to Marx's analysis.

Sweezy's critique

Significantly, Sweezy began his criticism by pointing to the importance Marx attached to the tendency of the rate of profit to fall in considering the historical evolution of the capitalist mode of production.

"To him," Sweezy wrote, "it possessed great significance. It demonstrated that capitalist production had certain internal barriers to its own indefinite expansion." [7]

In a passage cited by Sweezy, Marx made clear that the tendential fall in the rate of profit was an expression, within the framework of capitalism itself, of the historically limited nature of this mode of production.

"What worries Ricardo is the way that the rate of profit, which is the stimulus of capitalist production and both the condition for and the driving force in accumulation, is endangered by the development of production itself. And the quantitative relation is everything here. In actual fact, the underlying reason is something deeper, about which he has no more than a suspicion. What is visible here in a purely economic manner, i.e. from the bourgeois standpoint, within the limits of capitalist understanding, from the standpoint of capitalist production itself, are its barriers, its relativity, the fact that it is not an absolute but only a historical mode of production, corresponding to a specific and limited epoch in the development of the material conditions of production." [8]

Sweezy asserted that Marx had based his formulation of the law on the assumption of a constant rate of surplus value. This displayed a remarkable disregard for Marx's method, which sought to consider various processes in isolation in order to examine their effect on the accumulation of capital. It was necessary to assume there was no change in the rate of surplus value in order to isolate the impact of an increase in the organic composition of capital on the rate of profit.

Such a scientific procedure was made all the more necessary given the confusion of all previous economists between the rate of surplus value and the rate of profit. Constant capital, variable capital, the rate of surplus value and the organic composition of capital were all new categories discovered by Marx through which he was able to disclose the "secret of surplus value". Therefore it was necessary, from a methodological standpoint, to carefully analyse the effect of changes in these variables, in isolation from each other.

Ignoring these vital questions of method, Sweezy proceeded with his criticism as follows:

"It would appear ... that Marx was hardly justified, even in terms of his own theoretical system, in assuming a constant rate of surplus value simultaneously with a rising organic composition of capital. A rise in the organic composition of capital must mean an increase in labour productivity, and we have Marx's word for it that higher productivity is invariably accompanied by a higher rate of surplus value. In the general case, therefore, we ought to assume that the increasing organic composition of capital proceeds *pari passu* with a rising rate of surplus value. If both the organic composition of capital and the rate of surplus value are assumed variable ... then the direction in which the rate of profit will change becomes indeterminate. All we can say is that the rate of profit will fall if the percentage increase in the rate of surplus value is less than the percentage decrease in the proportion of variable to total capital." [9]

According to Sweezy, there was no "general presumption" that changes in the organic composition of capital would outweigh changes in the rate of surplus value. "On the contrary, it would seem that we must regard these two variables as of roughly co-ordinate importance. For this reason Marx's formulation of the law of the falling tendency of the rate of profit is not very convincing." [10]

An examination of Marx's analysis, however, shows very clearly why an increase in the rate of surplus value cannot indefinitely outweigh the rise in the organic composition of capital. Contrary to the claim that he had based his conclusions on the premise that there was a constant rate of surplus value, Marx specifically dealt with precisely the issues raised by Sweezy. The development of the productivity of labour, he noted, took a "double form". On the one hand, there was an increase in surplus labour (and therefore surplus value), given that the worker reproduced the value of his labour power in a shorter period. On the other hand, there was a reduction in the number of workers employed by a given amount of capital, and a consequent decrease in surplus value.

"These two movements not only go hand in hand; they mutually condition one another, and are phenomena that express the same law. But they affect the profit rate in opposite directions." The reduction in the number of workers employed reduced the mass of surplus value and the rate of profit, while the increased rate of surplus value tended to counteract its decline. But there were definite limits to this process, for, as Marx drew out: "Two workers working for 12 hours a day could not supply the same surplus value as 24 workers each working 2 hours, even if they were able to live on air and hence scarcely needed to work at all for themselves." In other words the compensation for the reduced number of workers provided by a rise in the rate of surplus value had certain limits. It could check the fall in the rate of profit but not cancel it out. [11]

Marx also addressed this issue in his preliminary work for Capital, written in 1858. Considering the division of the working day between necessary labour (the time taken by the worker to reproduce the value of his labour power) and surplus labour, he showed that increased productivity of labour had a decreasing impact on the expansion of surplus labour. If, for example, the working day of, say, 8 hours, was initially divided in the proportion 4 hours and 4 hours, then a doubling of productivity, leading to a reduction in necessary labour, to 2 hours, would see surplus labour increase to 6 hours, or by 50 percent. If productivity again doubled, reducing necessary labour to 1 hour, surplus labour would increase from 6 hours to 7, or by 16.67 percent and so on. For every increase in the productivity of labour, there would be a smaller increase in surplus labour.

In drawing out this result, Marx made the observation that, while surplus value rises, it does so "in an ever smaller proportion in relation to the development of the productive force" and consequently "the more developed capital already is ... the more terribly must it develop the productive force in order to realise itself in only smaller proportion ..." [12]

Despite the availability of considerable research into this analysis, the fact that Sweezy failed to address it, either in *The Theory of Capitalist Development* or subsequently, cannot be attributed to some kind of intellectual oversight or failure. He was developing another agenda.

To be continued

Notes:

4. Interview with Paul Sweezy conducted by Sungar Savran and E. Ahmet Tonak published in *Monthly Review* April 1987
5. Marx, *Capital* Volume III Penguin edition London 1991 p. 319
6. Marx, op cit p. 339
7. Sweezy, *The Theory of Capitalist Development* pp. 96-97
8. Marx, op cit p. 368
9. Sweezy op cit p. 102
10. Sweezy op cit p. 104

11. Marx op cit pp. 355-356
12. Marx, *Grundrisse* Penguin Harmondsworth 1973 p. 340