Marxism and the political economy of Paul Sweezy

Part 3: The breakdown theory

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8 April 2004

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This is the third 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 and* Part 2 *on April 7.*

The intellectual atmosphere in the field of economics in the 1930s was shaped, above all, by the catastrophe of the Great Depression and the subsequent elaboration written by John Maynard Keynes (1883-1946) in his book *The General Theory of Money, Interest and Employment*, published in 1936. Keynes took issue with the prevailing economic orthodoxy, which ruled out the type of collapse that had just taken place. He explained that, where there was insufficient effective demand, the conditions could develop where the economy would operate at a level below full employment.

The growing attraction of Keynesian economics saw a renewed interest in so-called "underconsumptionist" explanations of the crisis of the capitalist system. These theories, initially advanced by the French historian, Sismondi (1773-1842), during the first major downturn in the business cycle following the Napoleonic Wars, and periodically brought forward ever since, pointed to the fact that the accumulation of profit meant that the consumption of wage workers, whose spending provided the final market for the goods produced by capitalist industry, was limited and the economy therefore prone to crises.

On the basis of this outlook, the nineteenth century English political economist Malthus (1766-1834) sought to mount a defence of the landowners and similar social classes, such as the clergy, whose income was derived from rents, or state officials, all of whom had been designated by Adam Smith, among others, as unproductive. Malthus claimed that these classes, which spent without producing, performed a necessary social function in maintaining the capitalist economy. Keynes' theory was grounded on this tradition, with the state now playing the key role in ensuring full employment—which was not automatically guaranteed by the operation of the free market.

His theories proved attractive to "left" economists and even self-styled Marxists, because they opened up the possibility for a reformist program, based on a widening of the economic functions of the state, eventually leading to the capture of the "commanding heights" of the capitalist economy.

This intellectual atmosphere certainly played a major role in shaping Sweezy's outlook. As he was to later explain: "I was very much influenced, as I think was my whole generation, by Keynes, by the General Theory." [13] To what extent this influence extended to his criticism of Marx's analysis of the tendency of the rate of profit to fall is impossible to say. What can be established is that Sweezy was opposed to any analysis of the "breakdown" of capitalism based on the operation of this tendency.

Fundamental contradictions

The "breakdown" theory has been at the centre of conflicts over historical perspective for the past century. In the late 1890s, Eduard Bernstein, one of the leading figures in the Germany Social Democratic Party (SPD), began his attack on Marx with the assertion that Marx's breakdown theory had been refuted by events. The growth of cartels and the credit system, he maintained, had brought a new stability to the capitalist economy.

Karl Kautsky, the leading theoretician in the SPD, replied to Bernstein by insisting that Marx did not have such a theory. Rosa Luxemburg, however, confronted Bernstein's

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challenge head on. In her brilliant pamphlet *Reform or Revolution* she explained that either the socialist transformation would be the result of the internal contradictions of the capitalist system, which would lead to its collapse, or the "means of adaptation" identified by Bernstein would be able to prevent a breakdown. If that were the case, capitalism would be able to sustain itself indefinitely and socialism ceased to be an historical necessity.

In 1913, in her book *The Accumulation of Capital*, Luxemburg sought to establish the basis of capitalist breakdown in the process of the "realisation" of surplus value. Marx, she insisted, in his analysis of the reproduction of capital in Volume II of *Capital*, had been wrong to make the assumption that society consisted solely of capitalists and workers. If it did, the surplus value contained in the commodities flowing from the production process could not be realised. The realisation of surplus value depended on the existence of non-capitalist markets, to which commodities were sold. But the spread of capitalism all over the world—the development of imperialism—meant that these non-capitalist regions were eventually incorporated into the capitalist market, culminating in a breakdown that arose from the inability to realise surplus value.

This is not the place to go into Luxemburg's theory, which was opposed from many quarters. Suffice it to say, the basic flaw in her analysis was that she ignored the role of new investment by capitalist firms in realising already-produced surplus value and thereby ensuring the possibility of capitalist economic expansion.

The debate over the breakdown theory was subsumed by the eruption of the First World War, the split in the Second International and the Russian Revolution. In 1929 it was taken up again by Henryk Grossmann, with the publication of his book *The Law of Accumulation and the Breakdown of the Capitalist System*. Grossmann explained that it was the "great historical contribution" of Rosa Luxemburg that she adhered to the basic lesson of *Capital* and sought to prove that "the continued development of capitalism encounters absolute economic limits." [14] The problem with Luxemburg's analysis, however, was that it shifted the crucial contradictions of capitalism from the sphere of production to the sphere of circulation. "Realisation" was not the problem for the long-term development of capitalism. Rather, the problem was the insufficient extraction of surplus value to sustain capitalist accumulation—which expressed itself in the tendency of the rate of profit to fall.

In his *The Theory of Capitalist Development,* Sweezy was the first to introduce Grossmann's work to an English-language audience. But he dismissed Grossmann's analysis on the grounds that, among other things, it assumed away the problems of realisation.

Sweezy's criticism undoubtedly reflected his own "underconsumptionist" bent. But other factors were also at work. The breakdown theory has attracted controversy throughout the past century because it points so directly to the political tasks that Marxists must undertake. Contrary to the caricature so often advanced by its opponents, the breakdown theory does not advance the conception that capitalism will simply collapse of its own accord, whereupon the working class will automatically take the reins of power from the bourgeoisie. Rather, in drawing out the objective basis for the socialist revolution, it insists that the intensification of the contradictions of the profit system will create a crisis, placing the task of conquering political power squarely before the working class.

This means that, at every point in the historical process, whatever the pace of development, Marxists strive to politically prepare the working class for its historical task, through an intransigent struggle to establish its political independence from all other classes.

Sweezy's outlook was a long way from such a conception. *The Theory of Capitalist Development,* published as America was entering the Second World War, concluded with a scenario in which the military defeat of Germany would be followed by the collapse of capitalist rule and the victory of socialism across the continent of Europe. Contained here was the possibility that the conditions would be created for the subsequent peaceful evolution of both Britain and the United States towards socialism.

To be continued

Notes:

13. Interview with Paul Sweezy op cit

14. Henryk Grossmann, *The Law of Accumulation and Breakdown of the Capitalist System* Pluto Press London, 1992

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