Marxism and the political economy of Paul Sweezy

Part 5: “The tendency of the surplus to rise”

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12 April 2004

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This is the fifth in a seven-part 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. Parts 1-4 were published from April 6-9. The final two parts will be published on Tuesday and Wednesday, April 13 and 14.*

Paul Sweezy’s claim that the laws discovered by Marx only applied to the competitive economy of the nineteenth century meant that the growth in the productivity of labour no longer gave rise to the tendential fall in the rate of profit. Rather, the existence of monopoly gave rise to “the tendency of the surplus to rise.”

According to Sweezy, under competitive capitalism firms were “price takers,” whereas under monopoly capitalism they were “price makers.” In other words, giant corporations were able to “choose what prices to charge for their products.” [21] Under conditions of monopoly, firms did not engage in price cutting. But they did continue to try to cut costs through innovation, leading to a “downward trend of production costs.”

“The whole motivation of cost reduction is to increase profits and the monopolistic structure of markets enables the corporation to appropriate the lion’s share of the fruits of increased productivity directly in the form of higher profits. This means that under monopoly capitalism, declining costs imply continuously widening profit margins. And continuously widening profit margins in turn imply aggregate profits, which rise not only absolutely but as a share of national product. If we provisionally equate aggregate profits with society’s economic surplus, we can formulate as a law that the surplus tends to rise both absolutely and relatively as the system develops.” [22]

While this was put forward as a new analysis, it was, in many ways, simply an inversion of the theory of the falling profit rate advanced by Adam Smith. Whereas, according to Smith, the falling rate of profit was the result of increased competition, Baran and Sweezy concluded that, in the *absence* of competition and the ability of firms to become “price makers,” the surplus, or profits, would rise.

Having formulated the law of the rising surplus, Baran and Sweezy, made clear that it represented a fundamental departure from Marx’s analysis.

“This law immediately invites comparison, as it should, with the classical-Marxian law of the falling tendency of the rate of profit. Without entering into an analysis of the different versions of the latter, we can say that they all presuppose a competitive system. By substituting the law of rising surplus for the law of falling profit, we are therefore not rejecting a time honoured theorem of political economy: we are simply taking account of the undoubted fact that the structure of the capitalist economy has undergone a fundamental change since the theorem was formulated. What is most essential about the structural change from competitive to monopoly capitalism finds its theoretical expression in this substitution.” [23]

In formulating this new law, Sweezy committed the fallacy of composition.

It is perfectly true that an individual firm, or even several firms, can increase profits by monopolizing their product markets and lifting the price. But from this, it does not follow that the surplus in the economy *as a whole* will rise. To the extent that individual firms raise their prices above the level that returns them profit at the average rate, the companies that purchase those products will have a higher cost of inputs, thereby tending to lower their rate of profit. No surplus value is added; it is merely transferred from one firm to another, just as no value is added when fraud or robbery takes place—although certain individuals may well enrich themselves by such methods. And to the extent that the monopoly firm’s products form part of the consumption goods purchased by the working class, the cost of labour power will tend to rise, requiring an increase in wages and thereby lowering profits. Of course, it could be argued that wages will remain depressed and below the value of labour power. But in that case we would have, not a new law, but merely one of the methods, clearly identified by Marx, by which capital continuously strives to counter the tendency of the rate of profit to fall.

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Sweezy's junking of the law of the tendency of the rate of profit to fall was to have far-reaching theoretical implications with regard to his assessment of the historical contradictions of the capitalist mode of production.

Marx described the tendency of the rate of profit to fall as "the most important law of modern political economy," particularly from the "historical standpoint." This was because the attempt to overcome its effects was the driving force behind the continuous revolutionizing of the productive forces under capitalism.

It was the development of the social productivity of labour, Marx insisted, that laid the objective foundations for the development of a genuine human civilization, free of poverty and want, making possible, for the first time in history, the "free development of all." But the law demonstrated that this growth in labour productivity was incompatible with the system of social relations based on private ownership of the means of production. "Beyond a certain point, the development of the powers of production becomes a barrier for the development of the productive powers of labour." When it had reached that point, capital "enters into the same relation towards the development of social wealth and of the forces of production as the guild system, serfdom, slavery, and is necessarily stripped off as a fetter. The last form of servitude assumed by human activity, that of wage labour on the one side, capital on the other, is thereby cast off like a skin." The growing incompatibility between the development of the productive forces and the existing relations of production, expressed in crises and contradictions arising from the nature of capital itself, was "the most striking form in which advice is given to it to be gone and to give room to a higher state of society." [24]

Underconsumptionism

Sweezy's law of the ever-increasing surplus meant that the central contradiction of capitalism was no longer rooted in the process of production and the drive to accumulate surplus value, as it had been for Marx. Instead, it was situated in the sphere of market relations. The central historical problem for capitalism was no longer the accumulation of surplus value, but, rather, its distribution.

This "underconsumptionist" outlook, as Sweezy noted, had a long history, going back to Malthus and Sismondi. "What prevented both the classics and Marx from being more concerned with the problem of the adequacy of the modes of surplus absorption," he continued, "was perhaps their profound conviction that the dilemma of capitalism was summed up in ... 'the falling tendency of the rate of profit.' Looked at from this angle, the barriers to capitalist expansion appear to lie more in a shortage of surplus to maintain the accumulation than in any insufficiency in the characteristic modes of surplus utilization." [25]

The persistence of the "underconsumption" thesis—from Sismondi in the early nineteenth century through to the present day—lies in the fact that it coincides directly with the appearance-forms of capitalist crises. When goods remain unsold, firms confront overcapacity and unemployment persists, nothing appears more logical than asserting that the problem lies in over-production, and the inability of the market to absorb the surplus that is generated in production. But, as Marx warned many times, if appearance corresponded to essence, there would be no need for science.

The realization of the surplus value that is embodied in the commodities that emerge from the capitalist production process is an ever-present problem for capital. In order for the process of accumulation to continue, these commodities must be turned back into money by being sold on the market.

Part of the "effective demand" will come from the consumption expenditure of workers, and part from the productive consumption—purchases of raw materials and means of production—by capitalist firms. But if firms do not undertake new investments, then this demand will be insufficient. The market will only continue to expand enough to realize surplus value if new production is carried out. And that will only occur if surplus value continues to be extracted. Thus, the continued extraction of surplus value is the key to the realization problem.

If accumulation continues, then a portion of the surplus value will be used for investment—that is, to employ more workers and purchase additional raw materials, machinery and other means of production. This increased expenditure in one area of the economy will provide the "effective demand" for the realization of the surplus value produced in another. But if the accumulation process comes to a halt, investment will be cut, leading to a pile-up of goods, over-capacity and unemployment, and the emergence of the problem of over-production.

In other words, the phenomenon of over-production is the appearance-form, in the market, of problems that have emerged in the process of production (the accumulation of surplus value), and which find their expression in a decline in the profit rate.

Notes:

21. Paul Baran and Paul Sweezy, *Monopoly Capital* Monthly Review Press New York 1968 p. 57
22. Baran and Sweezy op cit pp. 71-72
23. Baran and Sweezy op cit p. 72
24. Marx, *Grundrisse* pp. 748-750
25. Baran and Sweezy op cit p. 113

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