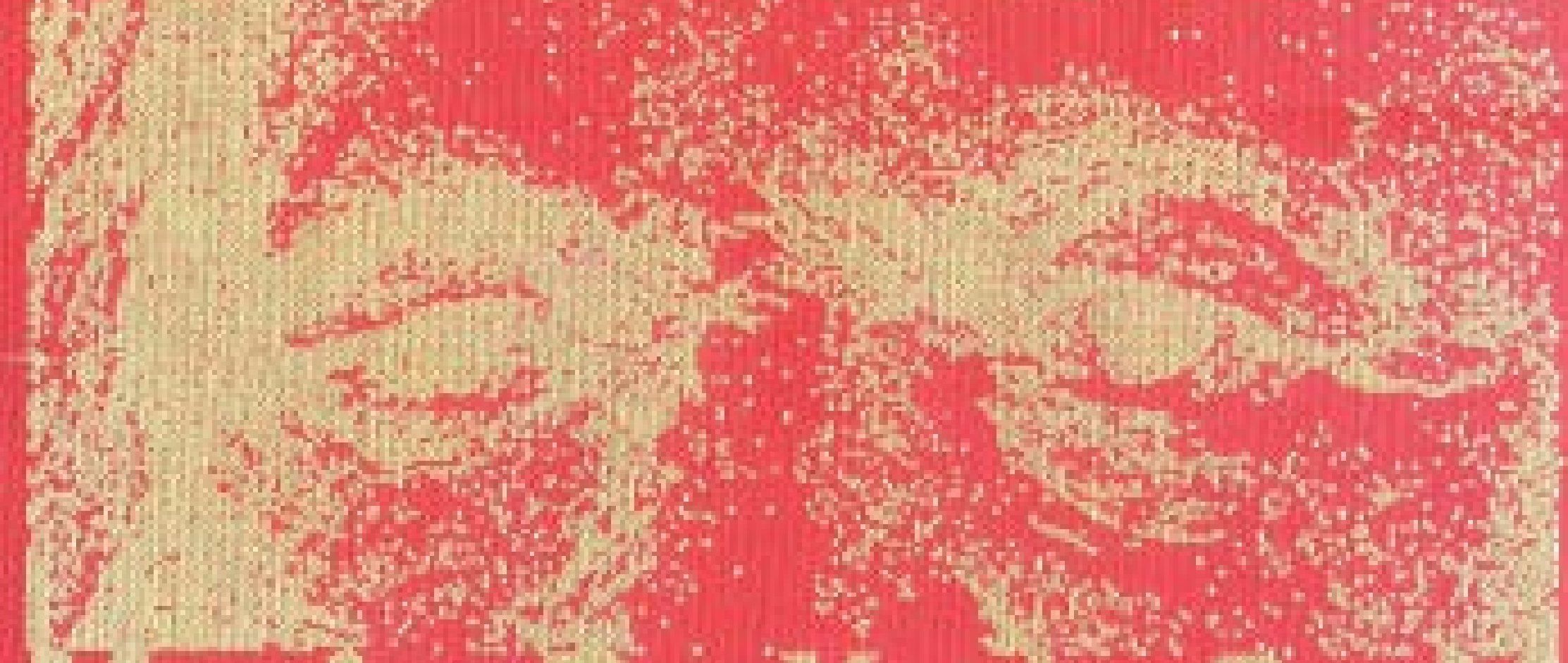


RETHINKING



MARXISM

ESSAYS FOR  
HARRY MAGDOFF & PAUL SWEEZY

STEPHEN RESNICK AND RICHARD WOLFF  
EDITORS

RETHINKING



MARXISM

STRUGGLES IN MARXIST THEORY

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*Introduction*  
**Solutions and Problems**  
Stephen A. Resnick and Richard D. Wolff

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Marxist theory in general and Marxist economics in particular have experienced a resurgence in the United States over recent years. Within and beyond academic circles, Marxist analyses are developed, discussed and debated. The depth and breadth of interest in the Marxist tradition of social analysis may never have been greater in United States history. Nor has this resurgence been significantly slowed by the current low ebb of organised Marxist political party activity. Theoretical and practical processes develop forever unevenly: a point Marx liked to emphasize.

So it may be a good time to step back from the prodigious productions of Marxist analyses to gain some self-consciousness about how we got here and where we seem headed. In dedicating this book to a major force that got us here—Paul Sweezy, Harry Magdoff and the entire *Monthly Review* project—we aim also to survey some major lines of inquiry now criss-crossing the Marxist tradition. In this we place special but not exclusive emphasis on economics.

Every contributor to this volume has been influenced in complex ways by our honorees. We have all chosen to honor their powerful interventions in and support of Marxist analytical work by an original contribution to the continued growth and liveliness of the Marxist theoretical tradition. Many, although hardly all, basic themes of Marxist theory are newly affirmed, modified, contested or displaced in the essays here collected. Old debates are renewed because they remain unresolved agenda priorities for Marxism. New debates are defined and joined to clarify or improve Marxist positions. Certain essays extend the reach of Marxist analysis into areas thought to be inadequately comprehended by the Marxist tradition.

This introduction is intentionally more than a long-overdue acknowledgment of the accomplishments of Sweezy, Magdoff, and the *Monthly Review*. We propose as well to show that their accomplishments did more than respond to basic challenges confronting Marxist theory and practice. They did more than extend Marxist theory to new analyses and original solutions to some basic problems engaging their generation of Marxist thinkers. In producing those

solutions, they simultaneously helped to generate in Marxists the need and ability to identify the next generation of basic theoretical problems.

Properly turning its notion of dialectics upon itself, Marxist theory understands its own development as partly the play of a two-directional causality between theoretical problems and solutions. Not only do the particular problems posed orient the Marxist tradition toward their solutions, but the solutions produced also provoke new problems (or new ways of approaching old problems) and thereby impart new orientations within the tradition. Sweezy, Magdoff and the *Monthly Review* are to be honored, then, not only by appreciating here the creative solutions which they constructed for certain urgent problems in and for Marxism. We intend this Introduction also to honor their solutions by specifying the urgent new problems and new orientations thereby placed on our agenda today.

That their work did not address or solve the new problems, at least not yet, is beside the point. Their struggles to identify and solve a previous set of problems laid the groundwork for theoretical struggles today. What better way to honor them than to focus struggles on those current problems which we can identify in good part because of the Marxist theory we learned and developed from them?

#### *Sweezy, Magdoff and the Monthly Review*

Paul Sweezy's influence on Marxist economics is theoretically profound and globally extensive. For forty years, his writings in Marxist theory, from highly abstract to urgently concrete, have inspired and significantly shaped the way Marxist theory is understood. Translated into dozens of languages, Sweezy's particular formulations have distinctly defined major problems within as well as the broad contours of Marxist theory generally and Marxist economics in particular. For the small but rapidly growing number of younger Marxist economists in the United States, he has exercised the pre-eminent influence for most of those forty years. He set the standard for Marxist economics to his fellow Americans. To Marxists outside the United States, he has been a major twentieth-century Marxist economist, thereby serving notice that within the United States a powerful, creative Marxist theoretical tradition could be kept alive notwithstanding the enormous pressures brought to bear against that tradition and repeatedly against Sweezy personally.<sup>1</sup>

In his widely influential book, *The Theory of Capitalist Development*, Sweezy wrote these opening lines to its Preface: "There exists in English no reasonably comprehensive analytical study of Marxian Political Economy. This book is intended to fill the gap." He achieved his goal. For thousands, the book taught and thereby largely defined what Marxism was, how Marxist analysis approached objects of economic and social analysis, and which objects were properly the focus of Marxist theory and research. The first half of the book was

a masterful condensation of the core of Marx's theories in *Capital* and *Theories of Surplus Value*. In the clear, sharp prose that was to characterise all his publications, Sweezy presented a short chapter on Marx's method of analysis followed by a tour de force through Marx's theories of value, surplus value, profit, price, accumulation and economic crises.

The latter half of that book was an equally impressive tour through the kinds of illumination of burning contemporary issues that Marxist theory made possible. There Sweezy showed a kind of applied Marxism: analyses of the state, monopoly capitalist enterprises, the international economy, imperialism and fascism. For those unfamiliar with the prior tradition of Marxist writings in Europe, the book provided an exciting and genuinely inspiring entry into the world of Marxist theory. Indeed, Sweezy's clarity and brevity have no doubt seduced many readers into substituting his book for close study of Marx's multi-volumed works (this was certainly not Sweezy's intention). For those familiar with Marx and Marxism, Sweezy's book challenged and provoked by its often original and controversial interpretations of Marxist theory. Inside and outside the Marxist tradition, Sweezy was recognized as a master of that tradition.

It is difficult to single out the most influential among his formulations in that book. However, two broad lines of argument have certain claims, at least in so far as subsequent debates have focused upon them. The first concerns Sweezy's explanation of Marx's value theory and its relation to observable prices in commodity markets. Sweezy's reading of Marx on these questions and his consequent judgement about the nature and proper solution for the problem of connecting ("transforming") values and prices have defined this issue for a generation of Marxists. He thereby helped significantly to shape the contributions of Piero Sraffa and most of the contending formulations within the "value controversy" raging among Marxist economists and extending to neo-classical economists over recent years.<sup>2</sup>

The second area concerned his notion of Marx's theory—or rather, theories—of crisis. Sweezy was much taken (in Chapter 11) with European debates in which Marxists struggled over whether and how economic crisis would occasion the general breakdown of capitalism as a social system. He formulated a notion of Marxist crisis theory in which a certain tendency of capitalism to produce more commodities than could profitably be sold ("underconsumption") loomed largest among the several tendencies to crisis identified by Marx. As a student of Joseph A. Schumpeter and Alvin Hansen in the United States and under the impact of John Maynard Keynes' work, Sweezy read Marx's crisis theories in such a way that Marx became partly a precursor to Keynes. For Sweezy, Marx had laid the basis for a theory of general economic stagnation in capitalism; in this basis Sweezy found Marx's most compelling contribution to the explanation of capitalist crises.<sup>3</sup>

This focus on capitalism's crisis or breakdown as a problem of long-run

stagnation came to be a hallmark of the *Monthly Review's* general orientation throughout its existence.

Sweezy's development across the 1950s and 1960s was deeply influenced by several major factors which culminated in the 1966 publication of *Monopoly Capital* with his co-author, Paul A. Baran.<sup>4</sup> Beside his collaboration with Baran, Sweezy had long worked closely with Leo Huberman, especially in their capacities as the co-editors of *Monthly Review* until Huberman's death in 1968.<sup>5</sup> Sweezy was also challenged by the intellectual predominance then of a variant form of Keynesian theory which held that both depressions and long-term economic stagnation could successfully be prevented by the proper mixture of fiscal and monetary policies. Indeed, former colleagues and students of Sweezy, such as MIT economics professors Paul A. Samuelson and Robert M. Solow, were leading international authorities on that kind of Keynesianism. Finally, the mounting evidence of and attention devoted to concentration in the United States economy, the growing phenomena of markets dominated by multi-product, multi-national corporations, stimulated him to carry forward his earlier theoretical explorations toward a Marxist theory of monopoly.

The impact of *Monopoly Capital: An Essay on the American Economic and Social Order* was far wider than that of *The Theory of Capitalist Development*. The rise of the New Left in the United States during the same years had created a vast new audience for Marxist analysis. The crisp prose, clear articulation and systematic theorising of *Monopoly Capital* "turned on" thousands of young Americans to the power and excitement of Marxist theory. Especially university audiences responded; copies sold in large numbers; and Sweezy began to obtain a steady stream of invitations to address and teach in colleges and universities across the country.

The book emphasized certain themes which had been raised earlier in his 1942 book and elaborated since then in articles in *Monthly Review*. It is no exaggeration to say that those themes stressed in *Monopoly Capital* became basic characteristics of radical thinking throughout much of the American left subsequently. As the title was meant to suggest, the book attacked conventional economic theory, as taught virtually exclusively in American schools, on the grounds that it was premised on the notion of a competitive economic system that had in fact disappeared, given way to a new economic order of giant monopolistic (or, more strictly defined, oligopolistic) enterprises. Marxian theory was introduced and celebrated as more appropriate and relevant to the actually existing economic circumstances than the non-Marxian theories predominant in the United States and elsewhere in the Western world. Marxist theory and a critical concentration upon monopolistic capitalist enterprise became closely identified.

The logical next step was to show how a Marxist recognition of and theoretical focus upon monopoly could generate an analysis of the "American Order" that differed sharply from the range of conventional non-Marxian

treatments. The book proceeded to accomplish this with extraordinary flare and persuasive power. Monopoly was shown to generate a rising flow of profits—the authors' "tendency for the surplus to rise"—to giant multi-national firms whose efforts to find new outlets for the investment of these profits (this surplus) shaped a great part of current history. The arguments demonstrated relentlessly that the outlets found were themselves profitable and so returned yet more profits to be invested: a problem unsolved. Thus, the authors linked key aspects of contemporary American society to the economic imperatives of a relatively small number of giant US multinationals. They crafted their particular arguments so as to march inexorably towards the conclusion that no final solution to the rising flow of corporate profits was available: none except the long-term stagnation that would reduce the profit flow to manageable dimensions.

Here, then, was a powerful set of arguments. The American order was impaled upon its own profitable successes, driven to the negation of profits by their very abundance. The promise of American capitalism was not the lovely universal prosperity claimed by establishment economists, publicists and politicians. Rather, that order marched inexorably towards stagnation and hence the unemployment, poverty and misery implied thereby. A socialist commitment could build upon the idea that so sorry a future warranted a refusal to allow giant corporations to take the nation down that road. A socialist perspective could confidently point toward alternative futures for the country if decision-making powers were transferred from those giants to the whole society. The book was notably restrained in proposing any specifics of a socialist program. However, its tone and thrust made the need and justification for such a program the ever-present message between the lines.

As influential as the broad contours of the book's thesis were certain of the particular arguments comprising that thesis. Approaching the argument from several vantage points, Baran and Sweezy demonstrated that the colossal waste of resources involved in advertising—what they called the "sales effort"—was both a way of investing monopoly profits and also a way incapable of solving the problem of profitably absorbing the ever-rising surplus. They stressed the resulting irrationality of the monopoly capitalist system: massive and ineffectual waste alongside a long list of unmet social needs and unsolved social problems. They explained how the peculiar monopolistic imperatives of finding outlets for rising surpluses drove the whole nation into irrational allocations of resources. They wrote poetically about lives devoted to irrational sales efforts which generated "the alienation from work, the cynicism, the corruption which permeate every nook and cranny of monopoly capitalism . . . characteristic features of a society in full decline" (p. 345.)

Perhaps a still more influential argument in their arsenal concerned the absorption of monopolistic profits by imperialism and militarism. In skeleton form, this argument held that much of the rising surplus was invested by

monopolistic firms directly in ventures abroad and indirectly in a mushrooming military apparatus (to protect and prepare for such ventures) via government taxing and spending. Their point was made once they demonstrated that the military spending, however enormous, could not begin to absorb surplus, and that the imperialistic investments abroad were intended to and did indeed generate still more surplus for the corporate multi-nationals. Their book was powerful support for the basic notion that militarism and imperialism were direct products of economic imperatives peculiarly connected to the modern giant corporation. At a time of widespread social upheaval over the Vietnam War in the United States, this argument had a major impact wherever concerned Americans struggled to answer the question: "Why, in the last analysis, are we in Vietnam?" *Monopoly Capital* offered an answer that showed not only that Vietnam was caused in large part by monopoly capital's needs, but also that more Vietnams were likely. The book showed why a serious anti-Vietnam War commitment required thinking critically about the basic structure of the United States. Vietnam was, in short, no "policy mistake," no aberrant departure from an otherwise benevolent foreign policy.

The book's treatment of race relations in the United States was still another powerful argument within the total thesis that it advanced. Beyond the particulars of their interesting and often original treatment, their linkage of the condition of blacks in the United States and Third World revolutions against imperialism prefigured a kind of argument which has since become widely associated with Sweezy, Magdoff and the *Monthly Review*. Briefly, the imperialism associated with investing the rising surplus abroad and the stagnation resulting from the system's inability finally to absorb all the surplus engender connected rebellions. Victims of imperialism rebel against the United States as the leading imperialist power, while victims of domestic stagnation, above all American blacks, rebel against the power structure of American society. It is to the anti-imperialist and, broadly understood, anti-racist movements that socialists must look for the likely initiatives in the struggle to replace monopoly capitalism with a socialist alternative.

The impacts of *Monopoly Capital* were diverse and profound. Not only activists but a generation of Marxist economists (often themselves activists as well) took their theoretical cues from the book. This meant that major topics for research were the issues Baran and Sweezy emphasized: monopoly, economic crises and stagnation, imperialism, and race. Of course, many other aspects of American life in the late sixties raised these issues as well. Thus, the special contribution of *Monopoly Capital* lies less in the issues it pinpointed than in the delineation of how theoretically to approach those issues. In this sense, the book served to introduce and champion Marxism as a distinctively appropriate vehicle for analysis for many readers. Its use of Marxist terminology, while quite restrained and limited when measured against European Marxist literature, was nonetheless considerable in terms of its American readers' standards.

Its foci upon the surplus, upon monopolistic versus competitive market structures, upon international profit flows rather than commodity flows, upon the poverty-producing rather than wealth-producing features of capitalism and upon the conflictual rather than the harmonious dimensions of economic interaction became so many hallmarks of Marxist and radical political economy in the United States ever since.

To conclude this brief survey of the major theoretical contributions by Paul M. Sweezy, we need to touch on two points. Firstly: Sweezy's impact via *The Theory of Capitalist Development* and *Monopoly Capital* exceeds the impact of each taken alone. Where the former laid out the contours of Marxist economic theory relatively abstractly, the latter dramatically demonstrated the kind of illumination of social and political issues made possible by Marxism. Readers of both, in whatever order, came away with a remarkably extensive and intensive introduction to Marxist analysis. That so many did, and especially under the adverse political conditions of the United States after World War Two, is powerful testimony to Sweezy's accomplishments.

Secondly, Sweezy has recently produced several provocative essays on the question of the transition from capitalism to socialism, particularly in his exchange of views with Charles Bettelheim, *On the Transition to Socialism*. Their particular value lies in recognizing and addressing issues strikingly in need of Marxist treatment: the nature of socialism as a social form distinct from capitalism, the possible trajectories of movement from one form to the other, and the location of currently existing societies along such trajectories. Sweezy's work raises some basic questions: what is the relation between collective ownership of the means of production and the effective control of those means in the definition of a socialist society; what non-economic changes must be established alongside economic changes to qualify a society for the label socialist; and do currently existing "socialist" societies display a class structure that requires a reformulation of the Marxist concept of class? Sweezy's work in this area, while preliminary, has provoked important beginnings in answering these questions and new explorations in Marxist class analyses of current socialist societies and the closely connected matter of transitions from capitalism to socialism.

Harry Magdoff is inextricably associated with the Marxist theory of imperialism. His two major books which concentrate on this topic have had great impact both inside the United States and abroad. The first, *The Age of Imperialism*, was remarkable above all for its ability, in a strikingly few pages, to comprehend the rich diversity of forces at work in capitalist imperialism. Readers of Magdoff's books typically finish feeling equipped with a real grasp of the essentials. His skill in linking the financial, military, and political aspects of imperialism has been widely appreciated in terms of directly overcoming many readers' anxieties that the topic is somehow inherently too complex to comprehend. Moreover, given the intense public concern with the United



States' increasing international involvements in recent decades, Magdoff's systematic Marxist treatments of imperialism have been very influential. They have provided no less than a definitive Marxist introduction to United States imperialism, its causes, mechanisms, contradictions and social consequences. His work, approaching imperialism from both the "advanced" and "less developed" country's perspectives, set the standard against which new work in Marxist studies of imperialism will be evaluated.

Magdoff has always been greatly concerned to argue for the organic connection of contemporary capitalism and imperialism. He attacked the view that imperialism was or is merely one among other policy alternatives that capitalist business or government leaders might choose and shift among. His meticulous empirical research documented the many dimensions of the intertwining of domestic capitalism and imperialism, above all for the United States. His conclusions emphasized that capitalism and imperialism have a long history of mutual dependence. His mastery of contemporary data sources and skill at statistical formulations have served him well in the quest to show even the most skeptical readers how domestic income, production, employment, price levels and currency exchange values depend complexly on the imperialist foreign connections of the economy.

Another object of his work has been the analysis of the monetary or financial aspects of imperialism. His famous essays on "The Financial Network" and "Aid and Trade" in *The Age of Imperialism* were more than exemplary studies of the crucial monetary aspects of imperialism; they were demonstrations of the significance of something whose understanding by Marxists was notably weak. For Magdoff, Marxists—particularly economists—have been especially remiss in succumbing to unfortunate trends among non-Marxist economists which denigrate the importance of financial and monetary issues. In opposition to such trends, Magdoff argued—and still does—for the precedent Marx established in *Capital*, where money and monetary movements were accorded the first importance alongside the non-monetary aspects of the economy. A few short years after his book appeared, the departure of the United States from the gold standard and the establishment of a gyrating international financial market with far-reaching consequences left many on the left eager for systematic Marxist treatments. Magdoff's are widely recognized as among the very best.

Magdoff repeatedly demonstrated how, in various ways, the economic dependence which imperialism wove into the structure of Third World societies led to economic disaster. He offered explanations which have become particularly important in the current days of massive Third World debt defaults and devastating internal austerity regimes. His work in the 1960s undercut the glib projections of smooth economic growth widely predicted for underdeveloped areas linked into the imperialist world economy. Time has warranted his critical treatments of those predictions and the analytical frameworks from which they emerged.

Throughout his writings on imperialism, past and present, Magdoff's work has exhibited a consistent commitment to the careful scrutiny of empirical detail. In his essays on colonialism, Magdoff is attentive to the detailed historical literature as a necessary basis for his broad characterisations of economic change. In his studies of modern imperialism, including the many essays in *Monthly Review* which he co-authored with Sweezy, Magdoff displays his command of the relevant current statistical data bases. Beyond merely knowing their contents, Magdoff is remarkable—and an important model for others interested in Marxist economic analysis—in his ability to bring a fresh and distinctively Marxist orientation to the creative reading and use of statistics. Notwithstanding the profoundly non-Marxist economic theory embedded in most agencies' choices of what statistical records to keep and in the decisions regarding how to select, collect and present them, Magdoff is the quintessential teacher in showing how to extract the statistical series we need to test, to apply and thereby to advance Marxist theory.

This too-brief survey of Magdoff's work needs to be supplemented by a reference here—elaborated in the contribution by Matt and Kim Edel below—to the extraordinary time and effort he has taken over the years to teach Marxian theory in direct, personal interactions. Literally hundreds of young Americans from the 1950s to the present have had repeated occasions of long conversations with "Harry" that often proved to be intense learning experiences exercising lasting influence. His unique capacity to teach and excite alongside the logic of Marxist theory itself combined to leave deep impressions on a generation of young American radicals. In so doing, Magdoff's conception of Marxism has been woven as a major strand into the complex structure of American Marxism today and likely for some time to come.

The *Monthly Review* is itself an institution of the American left. The magazine has provided Marxist analyses of current world developments with a regularity and quality that made it among the most influential socialist publications in the United States and elsewhere over the last twenty five years. For those interested in Marxist economic analysis in particular, it has been the pre-eminent American journal to read for decades. The *Monthly Review Press* extended the contributions of the magazine by making available book-length studies elaborating its themes and emphases and sometimes other Marxist tendencies. The Press translated and brought to English readers the work of Marxists who could thereby enrich the quantity and quality of English-language Marxist literature (e.g., writings of Louis Althusser, Samir Amin, Charles Bettelheim, Arghiri Emmanuel, Michael Kalecki, Henri Lefebvre, and Ernest Mandel). It also reprinted certain classics worthy of renewed attention (e.g., Rosa Luxemburg's *The Accumulation of Capital*, Louis B. Boudin's *The Theoretical System of Karl Marx*, Antonio Labriola's *Essays on the Materialist Conception of History*, Josef Steindl's *Maturity and Stagnation in American*

*Capitalism*, and Hal Draper's edition of Marx and Engels, *Writings on the Paris Commune*).

The *Monthly Review* has left distinct marks on Marxism. One tendency widely associated with it concerns the evaluation of nationalist and anti-imperialist struggles in Third World countries. The *Monthly Review* published many articles and books offering Marxist treatments of those struggles. These significantly influenced discussions and debates across the left in the United States and elsewhere. For example, the *Monthly Review* was the major source of positive, Marxist analyses of the Cuban Revolution in the early 1960s. It also published much on Mao's China and its claims to offer an alternative path toward communism to that of the Soviet Union: articles and such books as William Hinton's *Fanshen* generated enormous interest. During the Vietnam War, its publications contributed significantly to raising anti-war consciousness toward positions connecting the war to the socio-economic structure of the larger society.

Woven throughout the *Monthly Review's* articles and books was a particular attitude toward Third World struggles that characterised a whole section of the left in the United States and elsewhere. At the theoretical level, this attitude involved an approach to economic analysis that began with the notion of a world divided fundamentally between an economically advanced center and an exploited, economically less-developed periphery. Moreover, the struggles in the periphery to escape from its exploited, backward conditions were understood as the dynamic elements of the current historical period. That is, Third World struggles had come to replace those of proletarians within the advanced capitalist economies as the major motors of current historical change. Marxist writers, including such contributors to this volume as Samir Amin, Andre Gunder Frank and Immanuel Wallerstein, systematically elaborated this characterisation of the world economy and this attitude toward the Third World as the current locus of revolutionary initiatives.

In less theoretical terms, this focus of the *Monthly Review* helped to orient its readers away from struggles by workers over working conditions in advanced Western societies and toward nationalist and anti-imperialist struggles abroad. Given other trends in these societies toward notions of "the end of ideology," "post-industrial society," and human "one-dimensionality," the *Monthly Review's* stress upon foreign, nationalist and anti-imperialist struggles as the focal point of radicals' and Marxists' interests and hopes found many sympathetic readers. Sweezy, Magdoff and the *Monthly Review* clearly intended no denigration of the importance or potential of domestic workers' struggles; they did however point to the absence of revolutionary workers' struggles as warrants for their sense of looking elsewhere for revolutionary changes to emerge. Like so many other American radicals and Marxists, they also found more promising the upsurge of militant social criticism among women, non-whites and other minorities. It is important, we believe, to note

the participation of *Monthly Review* in the development within Western Marxism of a significant degree of skepticism regarding proletarian revolts in advanced capitalist societies—at least under current global conditions—and the reorientation of Marxism toward other struggles thought to be capable, at least potentially, of provoking global revolutionary changes.

Sweezy, Magdoff and the *Monthly Review* exercised their influence in ways supplemental to the books and articles they produced or the particular theses they advanced. The very existence of *Monthly Review* in the United States in the 1950s and early 1960s was an important accomplishment. At this high point of the Cold War against the Soviet Union, the *Monthly Review* represented the possibility of multiple Marxisms, that is, the possibility of different Marxist theories debating within a broadly Marxist tradition. While defending, in those years, a position of critical sympathy toward the Soviet Union when the overwhelming national sentiment was hysterical hostility, the *Monthly Review* also enunciated what it called "an independent socialist" position. It took its own stance toward the statements, theories or policies supported or denounced by other Marxists, including official pronouncements from Marxist governments. For the many Americans who did not support the Soviet Union in those years, the *Monthly Review* made it possible to continue a commitment to Marxism nonetheless. It facilitated the development of interest in Marxism by young people whose vision of the Soviet Union and Eastern Europe was a product chiefly of Cold War media hysterics.

The *Monthly Review* has long functioned as a mutual support institution for Marxists encountering difficulties in finding or keeping teaching and other jobs. Marxists from other countries visiting the United States often contacted Americans via the offices of *Monthly Review* when looking for researchers studying similar topics, when seeking opportunities to present their own work and learn of complementary work being done here. In an important sense, the flow of articles and books from the *Monthly Review*—particularly those by American authors—served notice on the rest of the world that a Marxist theoretical tradition was not absent in the United States. It showed that a native Marxist theoretical tradition was in place and growing, capable of contributions of interest to Marxists everywhere. This sense of an American Marxist tradition played no minor role in encouraging younger Americans with a deepening interest in Marxism but also concerned to avoid personally costly charges of dogmatic subservience to "foreign ideas."

Lest we be charged with sketching too rosy a picture of the *Monthly Review*, we should add that Sweezy, Magdoff and "MR"—as friends call it—made their share of mistakes, too. On occasion these have been important, as would have to be the case given the influence attributed to them in this Introduction. However, in our view—and we have major disagreements of our own with certain of their positions—this book is warranted by the enormous positive contributions they made to Marxism under very difficult conditions and at



many different levels. Far more than most "Festschrift" volumes, this one honors truly heroic contributions—theoretical, political and cultural—to modern Marxism and its furtherance in the United States particularly. The essays collected here demonstrate only some of the kinds of Marxist theoretical work which bear the influence of Sweezy, Magdoff and the *Monthly Review*.

### *Problems for Marxist Theory Today*

The Marxist theoretical tradition which Sweezy, Magdoff and the *Monthly Review* did so much to preserve and expand attributes uneven development to itself no less than to other social phenomena. Within the tradition, a variety of theoretical frameworks contest with and change one another subject to the myriad influences from other theoretical traditions and from all the non-theoretical aspects of the society. Debates, re-examinations and revisions are inescapable and vital signs of Marxist thought. The essays collected in this volume attest to that. However, they also confront us with certain basic problems in and for the Marxist theoretical tradition today. To take that tradition seriously, as this book does, leads us here to assess those of its problems which now most urgently need attention and solution. Like the contributions which follow, this Introduction seeks to celebrate our honorees by its own positive contribution to the liveliness and growth of the Marxist tradition.

We understand the first problem confronting the distinctively Marxist framework of analysis to be the theoretical status of Marxism as such. What is Marxist theory? How do we distinguish Marxist theories from one another and from non-Marxist theories? In more formal terms, what is the status of Marxist theory as theory, or what is the epistemological status of the theory? This problem is posed because of the widespread tendency among Marxists to follow non-Marxists in ignoring epistemology, in doing theoretical work with a self-assured refusal to consider how and why they have made the particular epistemological assumptions that underlie and profoundly influence their works. Being radical in thought has unfortunately not led many Marxists to examine the roots of their own notions of what theory is nor to consider how those notions shape the research they do. Being sensitive, say, to Marx's legacy from Hegel and its implications for current Marxist work has rarely led Marxists to grapple with Hegel's own critique of the epistemological conventions of his day, a critique which Marx likely shared, or to undertake a parallel critique of current epistemological dogmas.

Is Marxism a theory whose goal is to be adequate to some independent and "given" facts which human beings grasp through the privileged medium of the senses? Is such a classical empiricist epistemology, an absolute cornerstone of bourgeois theory for centuries, to continue as the unexamined and largely

unrecognized foundation for Marxist theoretical work? Indeed, are Marxists going to persist in dogmatic adherence to empiricist epistemological positions even after major bourgeois critics have gone beyond them? Is Hegel's direct critique of empiricism and Marx's endorsement of that critique also to continue to be ignored? Will Lenin's, Gramsci's, Lukacs', and Althusser's explorations in epistemology critique—which they felt were crucial for Marxism—remain unintegrated into Marxist analyses?

To believe that theory has a singular, definite, pre-existing object lying outside itself—"in reality"—is to take an essentialist epistemological position. The essence and goal of theory are then understood to be the adequate representation in thought of its extra-theoretical object. All thinkers are presumed to be equipped with the same sense organs providing universal and identical access to the "facts" of that reality against which all can evaluate any proposed theoretical representations. The thinker subscribing to this epistemological position is an essentialist; he or she believes in a singular truth or essence of reality which his/her theory aims to propound. If there are different theories, for such a thinker, one is right (i.e., "correct," "adequate," "verified," "true," etc.) and the others wrong or, more charitably, further from the singular truth. The focus of such thinkers, whether Marxist or not, is upon *the* truth, an absolute which they imagine will sweep all other theory away in some burst of universal recognition of truth. Forever disappointed in such expectations, empiricists have evolved ready explanations for their disappointments. The unconvinced have ulterior motives, biases, or other invalid intrusions upon thought blocking their vision or their minds. It is no part of the essentialist mentality to consider whether and why different theories represent different conceptualisations of a reality that is irreducibly differently experienced among people.

Ascribing validity across all theories to one truth, that of your particular theory, is an extreme form of epistemological dogmatism. Refusal to examine, discuss and debate epistemological positions further manifests a dogmatism utterly opaque to its adherents. Among non-Marxists, essentialist epistemologies such as empiricism provide a major support for the attitude towards Marxist theories and theorists that holds them to function outside the civilized norms of theoretical search for truth (that is, their truth). For bourgeois essentialists in epistemology, Marxist theories represent vile examples of political or perhaps diabolical intrusions upon the domain of truth-seeking thought, the genteel community of scholars. Not only in the 1950s and 1960s did such essentialist epistemologies serve nicely to purge Marxist thought and thinkers from cultural life; the pattern seems to be recurring now. Because it was deemed different, Marxist theory was found to be wrong; because wrong, adherence to it was literally understood to be perverse or explainable by the terrible influences of alien political forces, etc., etc.

If alternative theories are approached as competitors for the title of Truth

rather than as different conceptualisations of a reality experienced and understood differently, thinkers struggle for titles rather than explore the differential causes and social consequences of their varying theories. Which of these approaches is prevalent socially will influence how thinking evolves and how the whole society develops. The prevalence of essentialist epistemologies is conducive to essentialist perspectives also on matters beyond epistemology. For example, an essentialist approach to history seeks and usually finds *the most important* cause(s) of whatever event is being examined. Some economic or natural or political or cultural cause(s) is (are) deemed to have played the critical role. Essentialist historians will then debate, endlessly, over which cause(s) was (were) the major determinant(s): different historians championing theirs' against others' preferred essence of the historical change in question.

Marxists taking an essentialist position on epistemology are similarly prone to take essentialist positions on other matters as well. For example, economic determinism is an essentialism concerning social structure and change; it is popular among non-Marxists as well as Marxists. For the Marxists, this essentialist standpoint is expressed through analytical metaphors such as the base-superstructure categories or formulations built around notions of last-instance determinism. Even when Marxists react against such determinist arguments and denounce them for "reductionism" (the frequently preferred synonym for essentialism), they usually follow by counterposing alternative essentialist arguments of their own. They do not recognize any great problem with essentialist argumentation per se, notwithstanding such denunciations. Their major concern lies rather in substituting their preferred essence for that of the Marxists whom they oppose. For example, humanist Marxism opposed economic determinist Marxism by finally counterposing its specifications of an essential human nature. Debate between such Marxists has frequently degenerated into contesting essentialist assertions about whose championed essence—economy vs. human nature—is properly the Marxist explanatory factor for social change.

Occasional protests among Marxists over the essentialist dimensions of the contesting positions seem rarely to lead to questions about essentialism per se. Nor do critiques of essentialist positions on social change lead critics to inquire how epistemological essentialism may contribute to similarly essentialist social theories. The problem is that the Marxist tradition has so-ingrained an aversion to epistemological self-consciousness and discussion that it is largely blind to the nature and extent of the influence of the various epistemological positions taken by Marxists upon the tradition.

Even many Marxists who take great pride in answering bourgeois critics of "Marxist dogmatism" by asserting their firm resolve never to prove a point by citing chapter and verse from Marx, Engels or Lenin, do not generally grasp the epistemological issue involved in their answer. To imagine that Marxist theory seeks a singular truth about "reality" by verifying the statements its proponents

advance against the standard provided by certain selected texts is precisely to charge Marxism with containing a classic essentialist epistemological position: this time in its rationalist form. For rationalist epistemological positions, outside as well as inside the Marxist tradition, theories contest for the title of "truth" rather like they do for the empiricists discussed above. The difference is that no appeal to independently existing, sensuously apprehended given facts is proposed as the single, universal standard for what is true. Rather, the different standard of "sanctioned, received wisdom" is proposed: that theory is true which makes statements about the world which are most consistent with such received wisdom. Christian rationalists proceed in this way by reference to the *Bible* and/or related texts. Many modern natural scientists proceed in this way by reference to certain texts containing received "scientific" wisdoms. Many Marxists do likewise, except that their texts are the writings of their selected authorities. Such a rationalist Marxism has provoked other Marxists to distance themselves sharply from such kinds of reasoning. These latter Marxists, recoiling from rationalism in a manner reminiscent of repeated bourgeois rejections of Christian rationalism, also follow these same bourgeois in fleeing into an empiricist position. Instead of presuming that truth lies in texts of received wisdom, a similarly conceived absolute truth is presumed instead to lie "out there in the factuality of the real world," waiting only for objective observation and verification to find it. Empiricist Marxism warrants its statements' truth by reference to empirical factuality instead of Marx's writings. Yet there is no escaping the common essentialism of both the empiricist and rationalist epistemological viewpoints. Each conceives of a singular truth which all theorists are presumed to be seeking; each accepts or rejects propositions articulated within any and all theories according to their conformity with a single standard, be it received wisdom or empirical factuality. Each epistemological standpoint refuses to imagine the possibility that different theories beget, among other propositions, their own irreducibly different truth criteria, and that as a result no singular standard of truth across all theories is either possible or, for that matter, socially desirable. Rather, we have again the debate of contrary essentialists. One group of Marxists denounces the other not on grounds of their unexamined commitment to essentialist epistemological positions, but on grounds that their essential standard of truth is the wrong one: my essential truth against yours.

There is something pathetic in essentialist epistemological positions, be they empiricist or rationalist, Marxist or non-Marxist. Such positions amount to efforts by thinkers to do something more than produce statements about how they think the world works, to accomplish something quite naively magical. Epistemological essentialists claim that their statements are not "merely" their statements but are the precise "mirror" images of the singular reality which is simultaneously the uniform object for all thinking. The pathos lies in the sense of inadequacy underpinning such claims: the human condition which includes

the marvelous processes of thinking, speaking and writing is somehow not enough unless we can imagine the products of these processes to be absolute in some dimension, to "capture" how the world really is. Essentialist epistemology, with its various claims that products of thought are mystically transformed into more than that, into wondrous conformity with the universe's intrinsic singular structure, is finally a deeply religious sort of conviction. Frightened by the possibility that thoughts are irreducibly different among people and ceaselessly changing to boot, appeal is made to some absolute, to some verity that is not dependent on the time, place and vantage point of its discoverer. The appeal is embellished to the point where this verity is quite literally unhinged from the conditions of its production and willy nilly transformed into an ever-already pre-existing reality, from product of human life to its cause (in a manner ever so reminiscent of religion).

We have thus come full circle. Marx's famous warning in his *Contribution to the Critique of Hegel's Philosophy of Right* that the beginning of modern social criticism is the critique of religion is reaffirmed, only now in a new form. Marxist social criticism must begin with a critique of the deeply religious epistemological commitments and hence blindnesses inhibiting social analysis and hence social progress. Essentialist epistemology is perhaps a last stronghold of that religiosity that Marx knew had to be criticised to make way for the kind of radical social criticism which would be a condition for the existence of revolutionary social change. Marxist theorists can not rest with a rejection of rationalist epistemological positions if the alternative they adopt is empiricism. To do so is to leave unexamined, uncriticised and unchallenged the epistemological characteristic—essentialism—of the bourgeois and pre-bourgeois societies which Marxism seeks to supercede. The problem of epistemology for Marxism is all the more remarkable in view of the critiques of essentialist epistemology that have been produced in the twentieth century by bourgeois writers as well as by major Marxist theoreticians. As we have shown elsewhere, these critiques are considerably developed and now comprise a rich body of subtle argumentation.<sup>6</sup> That they are so widely unknown, especially among Marxists, testifies to the depth of commitment to essentialism. It may also signal simple theoretical conservatism, an anxiety about the results when a genuinely non-essentialist epistemological position is understood and accepted within Marxism and its consequences for Marxist theory are worked through.

Our point here is, after all, quite simple. No conceivable justification exists for the disregard of epistemological questions about the status of claims Marxists make about the truth of their formulations. How Marxism—theory and practice—develops in the period ahead will inevitably be shaped in part by the concurrent development of its theoretical formulations and debates. These in turn depend in part upon what Marxists think they are doing when they speak and write, how they understand the objects and methods of their speeches and texts, how they react to the speeches and texts produced by others working

within different theoretical traditions. These are all quintessentially epistemological matters. Ignoring them is not worthy of a great Marxist tradition; it is also potentially very costly. Moreover, we believe very firmly that a non-essentialist epistemological position has already been sketched by Marxists and that it provides means to resolve and move beyond existing debates and conundrums confronting Marxism that have hitherto resisted needed resolutions.

Neither Sweezy nor Magdoff have chosen to address the matter of epistemological presumptions within Marxism and their consequences for the various formulations within the Marxist tradition. *Monthly Review* rarely if ever opened its pages to discussions or debates on these matters. Their proper and exemplary concern with empirical data was frequently extended unnecessarily into empiricist epistemological assertions. We find this regrettable. Had they tackled these issues, their critical bent might well have led to the kind of exploration and radical questioning which we believe to be urgently necessary. On the other hand, the myriad of pressures upon them, the theoretical and practical exigencies to maintain and develop Marxism, especially in the United States from 1950 to the 1980s, understandably made other objectives more urgent. Our concern is not to quibble over what might have been done then. It is to raise and insist upon an urgent problem for Marxist theory to address today. We suspect that the many contributions made by Sweezy, Magdoff and the *Monthly Review* will undergo change as one result of the epistemological discussions and debates now beginning in earnest within Marxism. However, we also believe that such changes will build in new ways upon the foundations they prepared.

A second problem haunting even the best Marxist work exists as a nagging question: does the Marxist theoretical tradition possess a distinctive notion of social/historical causality? And if it does, what is it? Further questions are implicated here. Is a concept of "dialectics" relevant to a Marxist notion of causality? Are the various determinisms enunciated within the Marxist tradition alternative conceptualisations of causality? Just to list such questions is to provoke and thereby reveal hesitation, uneasiness and irresolution over so central a matter as how socio-historical causation is understood in concrete Marxist analyses.

The Marxist tradition has been debating causality for a long time under various guises, often only implicitly, and remarkably without making much headway beyond by now well-known, endlessly repeated formulae. A dominant theme with many variations has been economic determinism. This theme has so dominated Marxism as to be widely seen as indistinguishable from it, to be the very definition of Marxist theory in general. Economic determinism includes a set of propositions holding that a society comprises several different basic aspects, levels, instances, structures, etc. These are grouped commonly



as economic, political, natural and cultural (there is a range of roughly equivalent usages scattered through the literature). The key point for economic determinism lies in its presumption that the economic determine the non-economic aspects—if not always and immediately, well then in some last instance or long run. Herein lies a clear notion of causality. It is an essentialist notion: some particular aspect(s) of society, the economic, function as essential cause while the remaining aspects are approached as determined by that causal essence.

Marxists have invented a multitude of expressions to carry such economic determinism into concrete social and historical analyses. In one kind of formulation, economic conflicts are granted the status of “motor of history” or “dynamic force for change.” In another, stress is placed upon the relative importance of economic versus non-economic influences upon social structures and change. Here the admission (sometimes phrased as a dialectical standpoint) that non-economic aspects of society have their effectivity is couched within a reaffirmation of the faith by presuming that the effectivity of the economic outweighs that of the non-economic. A more subtle economic determinism relinquishes its hold on the short run; in treating particular historical conjunctures it permits non-economic aspects to outweigh the economic in influencing events. But this flexibility on the short run is couched within a reaffirmation of the faith by reference to the last-instance or long-run essential causality exercised by the economic aspects.<sup>7</sup> However, this subtlety does reflect a degree of internal Marxist distress with economic determinism; it allows any particular piece of analysis to approach its object while suspending the commitment to economic determinism. Short-run, non-economic factors can be granted causal effectivity upon events in an ad-hoc manner, depending upon the specifics of the case as understood by such Marxist thinkers.

The essentialism which unifies various kinds of Marxist economic determinists still leaves them room for intense disagreements over just *which* economic aspect is the most important, i.e., most causally effective, within the set of economic aspects of society. For example, the recurring debates about the concept of “mode of production” display intense conflict over which economic aspect shall be granted the title of final causal essentiality. Some Marxists divide the economy into forces and relations of production and decide that the forces—usually understood as the knowledges and techniques of transforming nature into use-values—are the final essence: they determine the relations and together with them the rest of the society. Opposed Marxists accept the division but choose instead the relations of production—usually understood as interpersonal connections involved in production—as ultimately determinant upon the pace and direction of development of the forces of production and thereby upon social development as well. Here too more complicated variants of these positions struggle for predominance within the Marxist tradition. Thus some thinkers attach great importance to Marx’s

remarks on periods of historical “correspondence” between forces and relations of production as contrasted to periods when such correspondence was absent. They reason then that the causal essence of social change lies in the presence or absence of such correspondence, rather than in either the forces or relations of production respectively.

What causes social structures to change and to be what they are is then no resolved matter even among Marxist economic determinists. Moreover, Marxists who reject economic determinisms of all kinds themselves offer a disconcerting array of alternatives. As noted above, some counterpose other causal essentialisms of their own preference. Certain humanist Marxists, often associating terrible political consequences with economic determinism, e.g., “Stalinism,” etc., produce instead a notion of social dynamics arising from contradictions between essentialised human needs and social conditions which frustrate the realization of those needs. In such formulations, social struggles are approached in terms of the human needs denied, repressed and/or frustrated—and the alienation thereby engendered—which can explode in demands and actions for social change intended to reduce or eliminate such alienation. Marxist humanist analyses focus upon the array of subjective conditions as more essential than the counterposed objective social conditions in making social transformations; consciousness looms large in their work. Here too subtle variants exist; for example, social change may be understood to emerge from absent correspondence between subjective conditions—human natures/needs—and objective conditions—economic, political and cultural institutions. In another example recurrently in vogue among Marxists, the essential cause of social structure and change is found in politics. Here, patterns (sometimes phrased as “dialectics”) of interpersonal domination (politics) interact with human intersubjectivity (human needs) to shape a social structure and, depending upon the presence or absence of correspondence between needs and domination, to shape a path of social change: history.

Beyond the major economic determinist notions of causality and the chief dissenting positions of Marxist humanism, there have been Marxist attempts to theorise about causality in a radically different manner: an anti-essentialist concept of causality. The goal of these efforts has been to generate a way of analysing societies that does not presume nor claim, naively, to “find” some essential cause of social change. Such a Marxist concept of causality would not presume nor search for cause-effect relations among its objects of analysis. Instead of looking for an essential cause such as forces or relations of production, class struggles, patterns of interpersonal domination, or the like, such an anti-essentialist Marxism supposes that each of these and many other social aspects as well play their own distinctive roles in influencing the path of social change. Bringing the notion of dialectics into the center of its perspective, such a Marxist theory conceives of each distinct aspect of society, not excepting the economic, as nothing other than the product, the effect of the

combined influences emanating from all the other distinct aspects. No one-to-one cause and effect relations are admitted; all effects are—to use Althusser's term—*overdetermined* by all the aspects of society, albeit uniquely by each. Every aspect of society in turn exercises its particular influences upon all the other aspects of society. Social structure and historical change are *over-determined*; they are denied in principle the essentialist causality which is imputed in principle by all the contending determinisms.

We have elsewhere elaborated an anti-essentialist concept of causality (built around the notion of "overdetermination") and shown its existence and development within the Marxist theoretical tradition (see footnote references). Our purpose here is only to focus attention on the extraordinary variety of often mutually exclusive concepts of social causality woven into Marxist speeches and writings. Not only do different concepts of causality clash among and not infrequently within various Marxist texts, but the clashes are for the most part implicit and unrecognized. Rarely are they confronted as themselves problematic and quite properly objects for explicit discussion and debate. This is not a defensible state of affairs in and for so serious an enterprise as the Marxist tradition.

The point is not to debate concepts of causality with the intent of declaring for one as against the others and crowning that one with the honorific of "true Marxist." Rather, what needs to be recognized as a major problem in Marxism is its refusal to face up to the confused and contradictory welter of concepts of causality quite literally running wild across its texts. The needed solution to this problem is a thorough discussion of the various concepts and demonstrations of their consequences for the rest of Marxist theory and Marxism generally. That is, we need to discover, analyse and debate how the different major concepts of social causality connect to the objectives of Marxism and to the other concepts central to the tradition. As Gramsci noted in his prison notebooks, there are costs and benefits—theoretically and politico-strategically—involved in alternative notions of causality. Marxist theory has no imaginable excuse for not applying itself to the full problematisation and analysis of those costs and benefits. The theoretical self-consciousness and clarification of Marxist theories that would result are themselves more than sufficient justification for recognizing and addressing Marxist concepts of causality as an urgent problem. The various tendencies inside the Marxist tradition might then understand each other better and so critically develop one another further.

Both the determinist and over-determinist tendencies within modern Marxism are necessarily constrained to make certain key strategic choices in performing their theoretical labors. No one can analyse everything, every aspect of any object of scrutiny. Everyone has to delimit a field of analysis, to choose those particular aspects of any social complexity that will draw his/her attention and so focus study and eventual textual production. For determinists, this choice is so automatic that it goes unrecognized; their foci are their

respective causal essences. They literally enter into the theoretical process (i.e. the process of thinking) at a point defined by their underlying essentialist presumptions. Economic determinists organize their researches and publications around the demonstration of the influences of economic upon non-economic aspects of the social events they study. Humanists' entry-point into social analysis is the human being, with whose designated attributes their theorising begins. Whether entering into the process of theory at the point of the economy qua socially determinant essence or alternatively at the point of humanity in that essentialist role, determinists' entry points give their distinctive imprints to the resulting analyses. How a theorist enters into social-analytical discourse shapes how and what he or she produces: theoretical entry points matter.

In parallel fashion, overdeterminists also must make their choices about their entry points. However, lacking the protective cover of an all-embracing essentialism, it is not obvious or automatic what their entry points will be. They can not make the choice in so implicit, so unrecognized a fashion. By virtue of their anti-essentialist theoretical commitment, whatever entry point they choose cannot function as a causal essence of social events, structures or changes. They can never justify their chosen field of analysis, their specific entry points into that field, by reference—implicit or explicit—to some rule or presumption regarding last instance determinism. Instead they are constrained to question and explain how it came to be that they choose this rather than that theoretical entry point at this time in this place.

Of course, for an overdeterminist to explain anything, including his/her own choice of theoretical entry point, is to discourse about its overdetermination by all the aspects of the social totality. Hence, a Marxist overdeterminist must explain his/her choice of theoretical entry point by referring to the specific influences—political, cultural, economic and natural—that combined to produce just that choice at this time and in this place. There is an irreducible autobiographical flavor to a Marxist's explanation of his/her choice of entry point or, for that matter, his/her commitment to overdetermination, the Marxist theoretical tradition, or anything else. To imagine that autobiography is not enough, that theoretical commitments must be warranted by some "objectively" existing ranking of importance, correctness or essentiality is to miss precisely what distinguishes overdetermination from essentialism.

The Marxist tradition displays then an array of theories whose various entry points sometimes do function as causal essences and sometimes do not. These entry points are definitionally different from one another as well as differing in terms of their determinist vs overdeterminist contexts. To take some prominent examples, some formulations of Marxist theory, particularly but hardly exclusively in economics, enter into their social analysis by means of the concept of capital accumulation. This is the central organizing concept, the theoretical focus of their treatments of socio-economic structures and historical

changes. Usually, but not necessarily, capital accumulation functions as the determining essence within such theories. By contrast, other Marxist theories proceed from an entry point of class or class conflict. Such theories define Marxism as that sort of social analysis obtained by organizing research, abstract and concrete, around the complex causes and consequences of classes and class conflicts. Still other Marxists define their entry points as concepts of social totality and/or historicity, frequently distinguishing Marxism from bourgeois theories on grounds of the latter's asocial or ahistorical entry points.

To confuse matters within the Marxist tradition further, no agreement exists on what some of these entry point concepts mean. Careful critics easily discern irreconcilable conflicts among Marxist texts which share a commitment to, say, class as entry point, but who also expound radically different definitions of class. Not infrequently such conflicts occur within individual texts, thanks above all to the remarkable aversion to theoretical self-consciousness which was discussed above. Indeed, the theoretical cacophany produced by a great portion of Marxist class analysis is traceable directly to largely unrecognised and so rarely debated basic disagreements over the concept of class.

For many—and perhaps most—Marxists, class is a term referring to patterns of property ownership, specifically property in the means of production. Classes of owners conflict with classes of the propertyless. For other Marxists, class is not a matter of ownership, dismissed as a secondary legalism, but rather a matter of control over means of production. Classes of controllers confront those without such control. For yet others, control over means of production is unacceptably narrow as a concept of class; they propose instead a basically political definition of class. In this approach, members of a population are classified according to whether persons are dominant—culturally and politically as well as economically—or dominated; this is the literature which builds its propositions around the concept of a ruling class. Still other Marxists define class by special reference to individuals' consciousnesses of their social position. In this view, persons do not constitute a class merely by virtue of some objective social position they may occupy; the existence of classes requires as well specific achieved levels of consciousness among these persons. Finally, and we have not exhausted the full range of Marxists' definitions of class, there are those such as we who understand class as a particular social process, namely that whereby some members of a social group do necessary labor (needed to secure their own reproduction qua laborers) and additionally surplus labor which is distributed to others who do no such surplus labor. In this perspective, the class process is both overdetermined by all the non-class processes comprising the society and as well participates in overdetermining each of them.

Our concern here is again not with claims and counterclaims as to which definitions of class conform with Marx's. The epistemological naivete of imagining that any text speaks univocally and provides some intertheoretic

standard of *the* true interpretation is not to be taken seriously. Marx can be, has been, will be and must be read and understood differently by readers who bring different theoretical formations to bear on the infinitely variable process of interacting with a text. Our concern is rather with the dilemma which we confront in the broad corpus of Marxist theory where speakers, pamphlets, articles and books deploy the most diverse concepts of class usually as if nothing were clearer than that all Marxists know and agree on some singular meaning of the term. Passionate calls to action as well as abstruse treatises within Marxism throw around clashing concepts of class as if no unwanted consequences flow from the resulting confusion over the term's meaning. The same Marxists who disclaim convincingly about the disastrous results of absent class consciousness in a population are themselves to be found among those unable or unwilling to recognize, confront and directly debate what the term should mean in and for Marxist theory and practice.

Which concepts function for Marxists as their entry points into social analysis, how they function, and what definitions are attached to them are all significant determinants, among others, of the Marxist theories produced and their consequences for social change. Each of these determinants constitutes a problem for Marxism today, which has yet to generate a literature adequate to the great issues which they raise. The problematic status of different Marxist theories' entry points is related also to the problems concerning epistemology and determinisms discussed earlier. Intense, open discussion and disagreement over these problems and their solutions is urgently required to advance the Marxist project at all levels.

The literature thereby produced would demonstrate the vivacity as well as the maturation of Marxist theory and its explanatory powers. It would also likely generate significant breakthroughs in many of the conundrums now bedeviling and diverting Marxist theory from greater progress and enrichment.

Sweezy, Magdoff and the *Monthly Review* deserve great credit for bringing Marxist theory in general and its American audience in particular to the point where these basic problems in and for the tradition can be posed. With Marx, we may take some comfort in surmising that Marxists only pose themselves those problems whose solutions are within reach. If so, our honorees are to thank for helping to provide the means to solve as well as to identify and pose the problems. We are where we are and are able to break new ground in part because of their labors. To continue the life of Marxist theory without confronting our major identifiable problems would do neither them nor us much honor.

If there is such a thing as a "crisis of Marxism," then it lies only in the possibility that these problems will be denied or, more precisely, repressed. It would surely be a critical setback for Marxism's development should fear of generating changes in the tradition lead Marxists to repress the consciousness and discussion of the basic theoretical problems identified above. It would be



vulgar to permit vested theoretical interests and reputations—linked to Marxist formulations which might be problematised by such discussion—to hinder its flowering. The Marxist analytical tradition is, we believe, now in one of its phases where re-examination and re-formulation of certain aspects of its basic theoretical apparatus, its distinctive conceptual framework, are the agenda priorities of the moment.

All tendencies within the Marxist tradition share a concern with concrete social issues: war, imperialism, political and economic inequalities, sexual and racial oppression, attacks upon such democratic institutions as have been won, poverty, etc. Thinking and acting on these problems are components of Marxists' self-definition. Sometimes, and for fine reasons, the thrust of the Marxist tradition is to concentrate upon the concrete application of its conceptual apparatus to such concrete social issues and the concomitant construction of strategies and tactics for changing them. In those times, the focused review and reworking of the conceptual apparatus is relatively less emphasized. Then, in precisely dialectical fashion, the very production of concrete Marxist social analyses slowly accumulates questions, critical insights and identified problems concerning the conceptual apparatus used in those analyses. There then follows a phase of the tradition's growth in which the emphasis shifts to reformulations of the apparatus precisely in light of and because of the findings of the prior phase that emphasized analyses of concrete social issues. Sweezy, Magdoff and the *Monthly Review* were and are master contributors to that prior phase. They thereby prepared the ground for the current shift toward addressing some of the basic theoretical problems which we identified above.

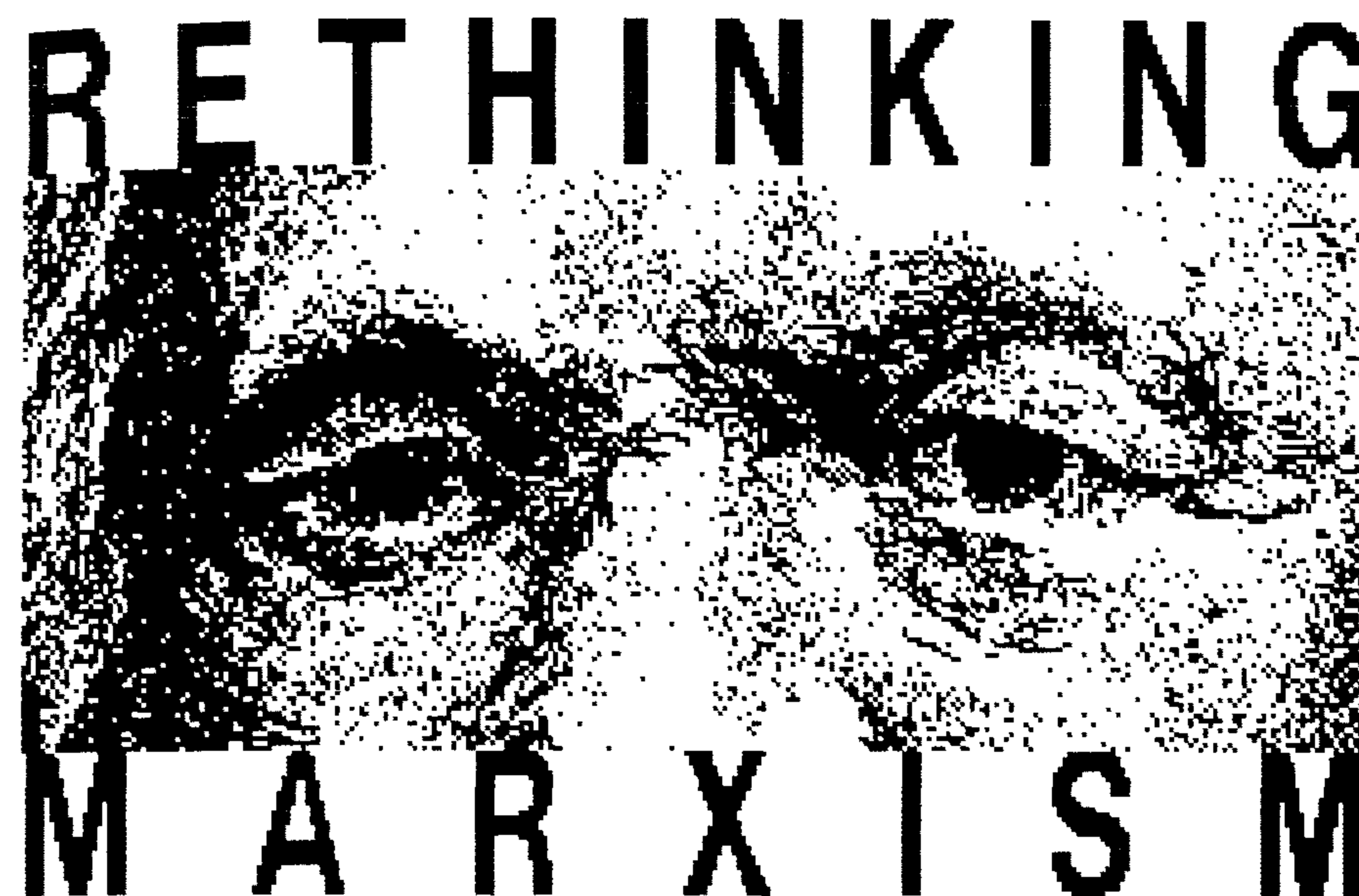
Of course, to speak of alternative phases that are in part both causes and effects of one another is to speak of emphases; there is no question of one focus of Marxist theoretical work ever eclipsing the other. Both always occur and influence each other, but phases characterised by shifting emphases between them have been endemic to the tradition. Now is the time to attend to *how* we understand concrete social issues, *how* we construct analyses and strategies for social change.

The contributions assembled in this volume display many of the signs of a period of transition within the Marxist tradition. Prior and later phases are in evidence, sometimes within the same essay. Together, they represent at once a kind of stock-taking and a glimpse forward toward coming objects of discussion and debate. Marxist theory is more alive and well, especially in the United States, than perhaps it has ever been. This will stand as a fine and fitting testimony to the many contributions of Paul M. Sweezy, Harry Magdoff and the *Monthly Review*.

## Notes

1. Brief biographical sketches of Paul Sweezy and Harry Magdoff at the end of this volume cite a few details of their personal experiences relevant to this point. Also, the bibliography of their writings following these biographical sketches contains detailed listings of works cited in the text.
2. See Sweezy's "Introduction" to *Karl Marx and the Close of His System* as well as his translation of Ladislaus von Bortkiewicz' article "correcting" Marx's transformation of values into prices printed in the same volume. The continued vibrancy of the debates along lines which Sweezy's work helped to shape is evident in Ian Steedman, et. al., *The Value Controversy*, London: Verso, 1981. An alternative understanding of what the transformation of values into prices means, one which dissents from Sweezy's statement by sharply differentiating Marx from Ricardo on this question, is in Richard Wolff, Bruce Roberts and Antonino Callari, "Marx's (not Ricardo's) transformation problem": a radical reconceptualisation," *History of Political Economy*, 14:4 (Winter 1982), 564-582.
3. At about the same time, Joan Robinson was reaching very similar conclusions in her *An Essay on Marxian Economics*, London: Macmillan, 1942.
4. One of the editors of this volume, having been a graduate student of Professor Baran at Stanford University in 1963 and 1964, experienced first hand the intense intellectual collaboration between Sweezy and Baran in the years preceeding Baran's death in 1964. Baran's theoretical input to this collaboration may be gauged by his well-known *The Political Economy of Growth*, New York and London: Monthly Review Press, 1957, and the posthumous collection of some of his essays, *The Longer View: Essays Toward a Critique of Political Economy*, New York and London: Monthly Review Press, 1969.
5. Huberman, a remarkably talented populariser of Marxist theory and analysis, had had a long association with the labor movement in the United States. In that association he had produced books whose audiences included many workers, for example *The Labor Spy Racket* and *The Great Bus Strike*. He had also produced two classics of American radicalism, similarly imprinted with his knack at rendering Marxist theory and analysis in clear, direct and persuasive prose: *Man's Worldly Goods* and *We, the People*, strikingly effective Marxist introductions to world and American histories respectively. There were numerous editions of both classics.
6. See our "Marxist Epistemology: The Critique of Economic Determinism," *Social Text* 6, (1982), pp. 31-72, and also our *Marxist Theory: Epistemology, Class, State and Enterprise*, forthcoming in 1985.
7. A recent and influential formulation of such a position takes its cue from Louis Althusser's differentiation between economic determination in the last instance and

the possible short-run social dominance exercised by non-economic factors: "Over-determination and Contradiction" and "On the Materialist Dialectic" in *For Marx*, translated by Ben Brewster, New York: Vintage Books, 1970, especially pp. 200-216. Two British sociologists used Althusser's formulation to recast the Marxist conceptualisation of social history: Barry Hindess and Paul Q. Hirst, *Pre-capitalist Modes of Production*, London: Routledge and Kegan Paul, 1975. Althusser's and Hindess and Hirst's efforts to break out of essentialist social theory were incomplete; while Althusser came close, neither he nor they achieved a systematically anti-essentialist position within Marxism, although their work provides indispensable means to do just that.



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# The Crisis, the Third World, and North-South, East-West Relations

Samir Amin

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For more than ten years the world economic system has been in a period of long enduring structural crisis. Far more than a conjunctural "recession" in a period of expansion, the profound qualities of this crisis have led some to revive the theory of "long cycles" or "Kondratieff cycles," etc. The crisis is world-wide and marked by: (i) the collapse of growth; (ii) the still more marked collapse of productive investment; (iii) a notable fall in profitability (but very unequally distributed among sectors and enterprises); and (iv) a tendency for the acceleration of inflation (stagflation).

It is a crisis of the capitalist system in so far as the world system is, in effect, largely ordered by the fundamental laws of this mode of production. The crisis also touches the countries in the East (commonly called "socialist," with all the reservations which are made to this designation) in so far as they effectively participate in the world system by commercial and technological exchanges, capital loans, etc. But these latter countries also suffer from another crisis which is particular to them: the difficulty of proceeding now from extensive accumulation to intensive accumulation. This crisis has, of course, obvious political aspects. The countries of the Third World which make up the periphery of the world capitalist system are also, clearly, the victims of this crisis.

My object here is certainly not to propose a new "theory" of capitalist expansion (for this refer to *La Crise, Quelle Crise?* for our point of view). Only a few points are worth recalling:

a) It is not so much the periods of "long depressions" which are to be explained but, on the contrary, the periods of long expansion. The latter are closely associated with "reconstructions and recoveries" which follow upon long periods of war, with "technological revolutions," and with epoch-making colonial expansions. According to one of the Marxist interpretations which we share, the capitalist mode of production encounters a profound inherent tendency towards stagnation, an expression of its tendency to develop the forces of production beyond effective consumption demand. There is nothing mysterious in the current crisis following upon the long post-war expansion period.

b) The capitalist economic system has always been world-wide in the sense that it is not merely a juxtaposition of national systems. It has always been comprised of centers and peripheries in which class structures and functions are complementary. It has been such since its mercantilist origins and not only since the end of the 19th century (Lenin's "Imperialism"). Marx perhaps underestimated this world-wide and unequal character of capitalist expansion (see *Le Marxisme en Afrique et en Asie* and *Le Marxisme Aujourd'hui*).

Now, this world-wide character entails political effects which pose crucial questions. What transformations are on the historical agenda? What are the stakes of actual conflicts which most determine the general movement? Who are the agents (the "subjects") of these transformations?

To these key questions we can sketch contrasting answers. First, consider the "orthodox-Marxist" vision according to which the essential conflict opposes socialism (working classes and not necessarily "countries of the East" as the Zdanovian theory claims) to capitalism. Other conflicts (North-South, inter-imperialist, etc. . .) would be "secondary." This vision is ideological; it is not empirically confirmed. Do working classes of the most advanced countries struggle for socialism? And what socialism? In the framework of what type of world system? Secondly there is a vision qualified as "Third Worldist," in our opinion wrongly, in which the world-wide character of capitalist expansion compels the capitalism/socialism question to be posed in an indirect manner. The major conflicts currently at the forefront of the historical stage (the true stakes of struggles) result from the contradiction between the pressures for globalization (or "transnationalization") imposed by the predominance of capital, and the aspirations of working classes, peoples and nations for some autonomous space. The fiercest of these conflicts (Russia in 1917, China, Viet Nam, Cuba) have led to a "break" from globalization associated with profound social transformations and with national construction. Theorized by Lenin, the concept of the "weakest link" has been associated with the strategy of an alleged "construction of socialism" starting with ruptures in the peripheries of the system. All the questions posed by this strategy obviously remain open: what can or could this "revolutionary break" really lead to? (See *Expansion or Crisis of Capitalism*).

In any case, the reality of globalization implies: (i) that any crisis of the capitalist system would be a crisis of the International Division of Labor, thus, especially a North-South crisis; (ii) that the question of the day would be "transnationalization or autonomous development" and not directly that of "socialism or capitalism"; (iii) that the hope of working classes, of peoples and of nations for autonomy causes historical subjects other than the "working class" to intervene, primarily peoples of the South (therefore, among others, the peasants).

Our thesis is that this conflict is particularly fierce in the current period. To the end of the 19th century, there had not been a major conflict between the

crystallization of a new bourgeoisie as a ruling national class and its participation in the capitalist International Division of Labor. Since then this contradiction has grown. The bourgeoisies in the South are caught between their "nationalist desires" and their submission to "compradorization." Periods of crisis (as presently) are periods of "recompradorization" in the South, and therefore, of revolts or potential revolutions against the latter. Contradictions in the construction of national autonomy are by no means limited to the peripheries. In the center itself the weakest capitalisms are equally threatened in the same manner.

c) The evolution of capitalism in the center defies the "orthodox" (and simplified) theory of class struggles. Working classes abandoned the project of a classless society and rallied to strategies for the amelioration of their positions within society as a result of center/periphery polarization. The economic struggle of these working classes in the center can again bring the capitalist system into question only if it dares to go so far as to again bring into question the world system. As to the "new middle classes," whose growth is so closely tied to the dominant positions of the centers in the world system, they are well aware of their privileges (including vis-a-vis local working classes) expediently justified in terms of "the legacy of education."

Therefore, the question of socialism is posed here in the center in new terms, different from those imagined in the 19th century. "Interclassist" movements in favor of a "new model of development" (feminism, the Greens, etc. . .) bear witness to it. These movements can potentially pose anew the question of a popular North-South alliance, since they again bring into question the very content of development on the national and global levels.

d) The current crisis, like its predecessors, is manifested by the "un-governability of the system." This occurs on three levels: (i) the periphery's resistance to the exigencies of the logic of transnationalization; (ii) the resistance of working classes in the center (their economic force over the workplace and their refusal of Fordism) and the resistance of peoples in the center to the predominant lifestyle (interclassist movements); (iii) the conflict between the strategies of global capital and the national policies of the State. In the absence of a hegemony (that of the United States is in decline) ensuring the functions of a global State, the national States have less and less of a hold over the strategies of capital.

The logic of capital's response to the crisis, necessarily from the "right," comprises a triple offensive: (i) The submission of the South by compradorization: witness the end of North-South dialogue and the crystallization of a Northern bloc confronting the South (see, for example, the Sixth U.N. Conference on Commerce and Development (UNCTAD) in Belgrade in June 1983); (ii) the undermining of the worker's movement in the center by unemployment, and of the interclassist movement by inflation (winning over the middle classes to the right); (iii) the submission to the American counter-

offensive which seeks to reestablish the hegemony of the United States and the consequent instrumentalization of the IMF, which represents the embryo of a supranational State.

## 2

The offensive against the South must, in our opinion, be placed at the center of an analysis of the conflicts opened by the crisis.

The relatively favorable conditions which arose out of capitalism's worldwide expansion from 1945 to 1970 occasionally had allowed Third World bourgeoisies to force some concessions from the imperialist system. The radical wing of these bourgeoisies (often operating from State positions), emerging from a strong national and popular liberation movement, had frequently established and legitimized its national leadership by social reforms (especially agrarian), development of a public sector and institution of an accelerated industrialization policy. Soviet alliance at times contributed to widening the margin of maneuver for these new bourgeoisies. However, these national policies (Nasser provided perhaps the strongest model) depended upon class structures, internal alliances and ideologies that precluded consideration of "breaks" from the International Division of Labor (they only sought accelerated import-substitution industrialization, thereby guaranteeing greater consumption for the privileged classes). Nor did they consider a "popular strategy" (an industrialization in the service of a preferred agricultural development, that is, of town-country relations based upon mutual support and not exploitation). Such a strategy would have implied a worker and peasant alliance as the basis of the political system.

The crisis reveals the fragility of these national bourgeois development attempts in economic terms (deficits, external debt) and in political terms (disaffection of popular support). The current period of crisis thus creates favorable conditions for destroying the "impossible" aspirations of bourgeoisies in the South and forces them to capitulate. All means are deployed to this end: financial (by the expedient of the IMF and the Club of Ten), economic (rejection of the New International Economic Order's claims) and even military (Zionist expansion, destabilizing South African interventions, etc. . .). The West en bloc has so far followed the United States in these pressures, notwithstanding some verbal disclaimers here and there.

The success of this global offensive against the South would lead to the "recompradorizing" of bourgeoisies in the South and would inscribe their further growth within the strict logic of monopoly capital's strategies for transnationalization.

This vast ebb and flow of the South's national project testifies, in our opinion, to the pertinence of the kernel of Leninist and Maoist theses: National

liberation is indeed always on the agenda and cannot be accomplished by the bourgeoisie in the periphery; Popular alliances ("worker and peasant") are here the sole means of surmounting social contradictions increasingly sharpened by capitalism's development. National and popular objectives imply "breaks"; thus, such a revolution can initiate a "socialist transition." At least one can say that this revolution constitutes a dimension of the socialist problematic. Indeed, it is the only effective dimension so long as no "other" national and global "development" prospect has really been initiated in the developed center of the system.

In our opinion the historical limits of Leninism and Maoism are not situated within the logical structure of these theses. Rather, they are situated elsewhere: in the realms of State-Party-Masses relations and in their extension to the problematic of Plan-Market-Social Management-Democracy. In the current crisis it is absolutely out of the question for bourgeoisies in the South to take up the initiative in a new radical way.

Moreover, in the preceding period of expansion Southern bourgeoisies used the autonomous space open to them to attempt to inscribe themselves further into the world system, though sometimes to the detriment of their weakest partners. Examples of this include local expansions and intra-Third World wars (even though partially inscribed within conflicts between the Superpowers); attempts at insertion into the global financial system such as OPEC; and attempts to accelerate dependent industrialization (newly-industrialized countries). All this is consistent with the bourgeois class nature of the hegemonic bloc in these countries.

Hard pressed in the crisis, the powers in the South have only verbal responses—such as the intensification of South-South relations—which are difficult to put into practice within the framework of the States in question. Alternatively, they believe themselves able to call upon the USSR; although this call may be largely ineffective. In the short run the offensive aiming at recompradorization is thus destined to score some points. But . . . the response, primarily in the form of a violent popular rejection, also gains in likelihood (as proven by events in Iran, Nicaragua, El Salvador, Ethiopia, Ghana, etc.) Will this "populist" response which is mobilized around ideologies of rejection (Islam for example) go further, allowing for the crystallization of a new national popular state? The question is, of course, open.

This response will depend, in part at least, upon the response given to another important question: can external forces (a leftist Europe for example) break with the offensive against the South, play the role of "non-alignment" (thus of real and equal opposition to the two Superpowers), and support the national and popular outcome in the South?



3

Is the working class of developed capitalist countries condemned to defeat, that is, to accepting "restructuring" only as a function of the exigencies of capital's profitability?

This outcome appears inevitable to us if one accepts the sacrosanct "international competitiveness" as the criterion of last resort for immediate choices. To avoid bowing to the exigencies of capital's strategy, we must associate immediate choices to two complementary perspectives: (i) opting in favor of "another development path" as formulated, although embryonically, by diverse interclassist movements such as the "Greens" in Germany, by discourse about expansion of the "noncommodity" sector, etc.; and (ii) opting in favor of supporting a popular national project in the South as formulated, for example, by the Greek Pasok.

The progressive crystallization of such a different development path could engender the extension of social property (the program of Swedish social democracy). Of course, this evolution remains yet to be invented and must find its own solutions to the real questions which it poses, especially with regard to relations between the State and democratic socialization. Obviously, the beginning of such an evolution implies the abandonment of neo-Keynesian illusions, just as it implies a counter-offensive against the ideology of the right which is in vogue.

Defeat is equally inevitable if one accepts the "Atlanticist" rallying calls which imply subordinating North-South relations and intra-West relations to East-West relations. Does the USSR constitute the primary menace today? Why does it not use its supposed military superiority to attack the West today instead of waiting and losing that superiority? Is this not simply a propaganda campaign aiming to make reestablishment of United States hegemony acceptable? The Atlanticist rallying call empties the revision of North-South relations of all content, as shown by the astonishing retreat in European attitude on the question of Palestine and Africa (support of Zaire and South Africa, etc. . .).

4

The offensive against the East is really a disguised offensive against the South and against the working classes in the West: an attempt to reestablish American hegemony.

Certainly, the East is not "socialist." Nor is it incapable of becoming potentially expansionist, or even of choosing the path of adventure in order to surmount its internal crisis which is deep and specific. That crisis will not be surmounted by a progressive integration of the East into the world system. This

choice encounters important obstacles, for example, the threat of losing control by a too extensive integration. The East will thus pull back each time it feels itself threatened. Such is the lesson of the failure of Khrushchev's illusions, followed by the return of Brezhnev, etc. In any case, how peoples in the East might surmount this impasse is not our question here.

The question to debate is thus neither the nature of the USSR, nor its prospects. The issue is rather the empirical question of tactical equilibrium on the military plane. The current offensive against the East is only the mask of Reagan's offensive against peoples of the Third World and workers of the Occident. The bet that by ceding to American demands one could better negotiate economic concessions has proven itself to be a delusion. Just the opposite has occurred: Atlanticist rallying reduced the space of economic autonomy. Thus, three alternative futures for East-West relations stand out. *First*, there is the Atlanticist rallying of Europe, accepting the submission of itself to the aggressive policy of the U.S.. The war, which is possible in that perspective, could well start in Europe. *Second*, and on the opposite, there is the possibility of a deepening of the Europe-United States divergence with regard to East-West relations. Wallerstein envisages here the possible consolidation of a Paris-Bonn-Moscow axis, against a Washington-Tokyo-Peking axis. This is a possibility which was raised some years ago; its tenacity is revealed by the "Soviet gas" affair. Perhaps this is even the most probable option if certain currents on the right were to prevail in Europe. These currents are more realistic and less "ideologically" prejudged with respect to the USSR. On the opposite, certain currents in the European left, which are precisely victims of ideological prejudices, could fall into Reagan's trap. In any case, in this perspective, North-South relations are seen from a strictly "imperialist" point of view, in which Europe-USA competition is maximized (the "Gaullist" vision). By contrast, the Atlanticist currents—of right and left—envisage a sharing of the tasks between the USA and Europe (especially in Africa). *Third*, there is the possibility of a leftist or anyway "other European politics" which would be simultaneously anti-hegemonist (directed against both hegemonic projects), non-Atlanticist and Third Worldist. In one word, the third possibility comprises a rallying of "non-alignment."

This option would reduce the risks of war, and would reinforce the autonomous space of workers in the West and of peoples in the South. It might also open room for some sort of "reformist transformation" in the East, which is closed off in any case by the other policies. But obviously this choice, in the visible future, is excluded. A whimsical Europe does not appear ready to consider this choice. The European left does not always understand that one cannot want the privileges of imperialist domination and at the same time refuse the restructuring which its expansion imposes. China had chosen this path from 1960 to 1970, probably the wisest and most consistent with the long term interests of peoples and of socialism. Isolated in its struggle "against the two



hegemonisms," it relinquished active non-alignment. The responsibility of Europe and of its left, which in the end preferred to rally with Reagan's Atlanticism, is important here.

*Note:* To lighten the text, we have avoided numerous references which can be found in Amin, Arrighi, Frank, and Wallerstein, *Dynamics of Global Crisis*, New York: Monthly Review Press, 1982. Also see *Le Marxisme en Afrique et en Asie*, *Le Socialisme dans le Monde*, No. 33, 1983; and "Expansion or Crisis of Capitalism," *The Scandinavian Journal for Developing Countries*, June 1983 and *The Third World Quarterly*, April 1983.

## From Civilization to Barbarism

Rosalyn Baxandall and Elizabeth Ewen

Undoubtedly the most important political phenomenon of the last two decades and one that will continue to mark the politics of the next is the development of a new feminist movement for the liberation of women. Since the late 1960s there has been a growth of consciousness amongst all sectors of women in America and a growth of institutions committed to the elimination of sexism. Yet isn't it ironic that in a period of heightened feminist consciousness we have the most reactionary anti-feminist Presidential administration imaginable? How can both forces coexist? In the age of Reagan two major tendencies are clear: the dismantling of previous social programs and social conscience, while at the same time a reinvention of a kind of individualism suited to the high tech consumer economy: mobile, independent, free, single people in pursuit of material gain and career, the new ideal, The Cosmo woman. A person driven in both work, leisure and consumption.

In this context certain aspects of modern feminism become the last frontier of this new individualism. Women have become the ideological subjects but remain the economic objects. The dominant voices of the period are voices that the media has created. From the media image of the super woman to her so-called embodiment in figures such as Jane Fonda, Gloria Steinem, or Phil Donahue. These feminists are at the same time seen as radicals and part of the main stream network and business elite. Are they using feminism or has feminism used them? Do they embody a radical social critique or are they individual success stories? Are they the new female Horatio Algers? Do they develop alternative feminist institutions or do they add to Reagan's panoply of paragons to the myth of success?

Indeed, we live in an odd juncture in the history of feminism. The dominant rhetoric is all opportunity, possibility and new horizons. Yet every day the economic fortress called capitalism makes the dream a palpable lie. The grim economic forces of monopoly capitalism, aptly described by Sweezy and Magdoff, creak on! Unemployment climbs higher especially for youth and the poor! The old industrial plant rots while new automated technology makes jobs obsolete. Only crime flourishes. The old family and morality has broken down; only the right wing pretends that they still flourish. The two verities of the society, home and work, barely exist. Only the skeletons of SELF remain.

What Engels claimed as the major panacea for liberation of women, entry into the workforce, now exists. Fifty-three per cent of all women work full time. However, the division of labor by sex remains, perhaps even deepened given the sex-segregated nature of the job market. There is equality in

alienation. Is this the promise of rhetorical feminism? Does equality consist of working two jobs in the homes, offices, factories and raising a family by yourself, as an independent single mother? Yes, we've come a long way.

Let's look at how we got here. We see three essential moments in the history of feminism, three periods of heightened feminist activity and thought: 1848 to the Civil War, 1890 to 1920, and 1967 to 1980. These moments correspond to major changes in the socio-economic structure of American society, as well as to critical developments in the history of social movements. The first feminists came from a rich background of social reform including abolitionism, utopian socialism and social movements for free speech, free public education and freedom of religion. They were armed with an optimistic belief in the power of individualism while understanding the difficulties of social change. They gave birth to a feminism informed by transcendental philosophy and anti-slavery activism. From years of fighting the slave system they understood the entrenched quality of power but also the absolute imperative of social transformation. However, once the abolition of slavery had been accomplished many feminists were disappointed with the new but still constricting definitions of citizenship and women's rights. The broader ideals of human justice and equality of these feminist individuals were increasingly sacrificed for a more narrow outlook limited to suffrage. The leaders of the early women's movement, Susan B. Anthony and Elizabeth Cady Stanton, and their universalist ideals were considered obsolete by the Taylorized, organization-minded leaders of suffrage in the latter part of the 19th century. What had been one movement combining social reform and feminism, now split into two distinct and often warring wings: social feminists fighting for municipal reforms, child and maternal care, peace, etc. and suffragists fighting for the vote, the E.R.A. and women's right to participate in World War I. (Of course, some women, such as Crystal Eastman, spanned both wings.)

The changing contours of the late 19th century American life—rampant industrialization, the growing specialization of labor and the moral economy of Social Darwinism—created a cultural climate in which the more transcendental conceptions of feminism were seen as old-fashioned; incapable of creating a winning strategy. Yet by the late 19th century women began to enter both the factory and the professions. This entry into the workforce permitted an alliance of both working class and middle class women that had not occurred previously. American feminism became more vital, daring, and forceful than European feminism due to these special opportunities for new class alliances and sisterhood. For some observers like Charlotte Perkins Gilman this new alliance seemed pregnant with the possibility of social change. And, indeed, this diverse coalition did develop new ideas and modes of action: from new conceptions of socialism and trade union activity to critiques of the family and the home and to action in immigrant communities, co-operative kitchens and militant suffrage demonstrations in city streets.

After World War I and the winning of suffrage, this working class-middle class reform coalition split. Historically, this coincided with the birth of an American consumer culture. During the 1920s, the material and ideological structure of a modern consumer society was established. For women, this development was critical; a consumer society makes women its special subject and object. On the one hand, consumerism reforms the domestic role of women in the private household. On the other hand, women become the major consumers of household goods, in a sense the agents of domestic modernization. At the same time, the public images of women became sexually objectified; the identification of women's bodies and consumer goods developed on a national level. Women become the vehicles through which new consumer industries develop their hold on people's lives.

The ideology of consumption is democratic and national rather than ethnic. It further exacerbates in material terms the class division between women; some women sew the goods to enable other women to purchase a newly created lifestyle. The new consumer culture broke up women's control and power within the home. Tasks were no longer self-defined by women themselves but by outside corporate interests. The same alienated conditions that applied to the world of work came to apply as well in the home. The immediate effect of this individualized consumer culture blunted mass political action. Looked at historically, it also helped to generate the social and political conditions for new antagonisms to develop, which led eventually to the "second wave" of feminism in the 1960s.

In the 1950s the further implementation of consumption required a growth of jobs which related to the clerical, technical and service functions of the economy. This created the material conditions for women's massive entry into the work force. Yet, the ideology of privatized domestic consumption still necessitated the identification of women with the domestic sphere.

The activists of the 1960s saw the contradictions of the 1950s consumer culture. They saw their mothers trapped within the domestic void surrounded by the social lies that promised a better life for women through purchasing power. Yet the daughters benefitted from a rising standard of living and the growth of the new service economy that required the higher education of daughters as well as sons. These daughters knew both the breakdown of the industrial producer economy and the dawn of the consumer computer age.

For the founders of the second wave of feminism the objects of struggle were clear; the university hierarchy, the managerial bureaucracy, the war machine, male dominated organizations, racist institutions, the suppression of an intellectual political tradition of female struggle and last but not least the nuclear family. The gains of this struggle are significant. There is a new generalized consciousness of sexual and racial equality as well as the recognition of the social necessity for women's education and work. Minimum legal reforms toward these ends have been accomplished.

In spite of these victories, there is a deep crisis that has occurred with the growing success of feminism and the breakdown of sexist barriers. The cutting edge of feminism and its radical anger have been coopted into the mainstream. Historically, this is not dissimilar to the other major periods of feminist activity; in each case the initial theoretical and activist thrust becomes transformed by new directions in the society. All social movements are born in periods of social upheaval as many different groups—blacks, women, workers, etc.—get activated. Their struggles are connected and reinforced by each other. Yet in times of cultural and economic backlash and social reconsolidation these struggles are repressed; the gains become trivialized and taken for granted. We can see this clearly in the history of feminism; the right to vote, a 70 year old struggle, becomes another amendment rather than a means of empowerment. The right to work becomes the right to drudgery and the right to break the chains of the family becomes the alienated super self of the 1980s.

We would not be as upset if these trends were not widespread and promoted by dominant and feminist media. We see a kind of rampant individualism in the academy, the arts, business and sports. In the age of Reagan competition replaces sisterhood. In the professional circles of feminism a kind of instrumentalism has developed in which personal gains have been confused with feminist goals, and work is pursued with a viciousness that borders on compulsion. This individualistic workaholicism in pursuit of a career has replaced the battle fatigue once felt in struggling to build a movement. What once was a collective and alternative movement experimenting in new forms of family and child care in part has narrowed to the self, circumscribed by career and cash.

The politics of ego fulfillment is limited. One can't have a politics of subjective inference. We need a shared perception of an objective crisis. Without this clear common reference there are no shared strategies and goals. A foundation stone of feminism can't be built solely on self development. It must be about consciousness, solidarity and internationalism. Women have exchanged a concern for the world for a room of one's own.

In the 1960s and 1970s we tried to develop a socialist feminist morality. Sometimes women went overboard in passing judgement on what should be considered proper feminist behavior. However, in the 1980s all criteria of morality have been abandoned and everyone does her own thing on the climb towards "success." Those who condemned marriage, family and career are now rushing to the altar and seeking political office.

While these tendencies exist in professional circles they reverberate throughout. An example of this comes from our ten years experience teaching women's studies in a public university. We introduce this cast of characters:

Mother of three, recently returned to college after her children left home, from Levittown, a Long Island suburb, age 50.

Recent High School graduate, first generation college student majoring in Computer Science and Business, age 18.

*Mother:* Even going to school was a major step. Not only my husband resents my being a student, but my kids thought it was silly. Everyone seems threatened by me. Everytime we go for dinner with our friends, I'm attacked by both wives and husbands. They see my going back to school as destroying the family. I'm the "libber" on my block. Why, my husband gave me a broom stick for my birthday. I'm not even sure I can make it through this semester, it's so hard doing everything. My husband doesn't even like me to read at night. I'm doing it for myself, but I make sure to do him special favors, like ironing his underwear.

*Recent High School Graduate:* (Interrupting) That's sick. I wouldn't do that for any man. Leave him. It's your life. Take me. No man's ever going to put me in that position. My career in business will be all set up. We'll hire someone to do the housework. I ain't taking shit from no one. I'll get respect. This is 1984 and you can do whatever you want and no one will stop you except yourself. You are your own worst enemy. No man's getting in my way. I'll have my business and my family, my own checkbook, my own friends and if he doesn't want to share the work the hell with him. I'll get me another one.

*Mother:* God, I envy you young people so much. Everything has changed. It's so different now. I only wish I was as young as you are. Then I could change and do what I want. But I can't, so you'll have to do it for me. I was raised so differently.

Both of these positions respond to and catch the current feminist drift. The older woman, although seen as a voice of the past, is responding to the drumbeat of feminism. Would she have returned to school before 1967 and the second wave of feminism? Hasn't feminism informed her of sex stereotyping and made her aware of the difficulties of female struggles under male patriarchy?

The younger woman is also responding to the call to break the chains of women's history, but in her mind the chains are already broken. Will has replaced sex struggle as the motor force of history. To her there is only freedom, no necessity. She needs no one except the business enterprises who supposedly await her with open arms. If she fails, she will blame only herself. She does not understand and easily dismisses the social forces that will determine her life. Here we see a conjuncture of feminism and Reaganism, coexisting easily. Feminism is no longer a threat to society but part of the new entrepreneurial frontier.

In the face of this new entrepreneurial ideology and cultural backlash, no component of the left (from trade unions and social democracy through radical

popular movement to the organized Leninist far left) has been able to develop a strategy or program. This lack of left wing practice complicates the development of the women's liberation movement, which is thus compelled to elaborate a politics with little sense of direction or potential allies. In this vacuum only the politics of self remain.

At the beginning of the women's movement the major battles aimed to include women within the context of the larger society. The autonomous women's movement was a tactic designed to give women a space to think intellectually and strategically to define a political role. Although this movement encountered many tensions (gay-straight, married-single, old-young, child-childless, etc.) its purpose was to agitate for the transformation of society. More recently it appears that women alone have become the center of intellectual and political activities and the perspective that connects women to the society is severed. For example, the current notion of the "feminization of poverty" in the midst of a general economic crisis blunts issues of race and class and makes it appear that poverty is only a female experience. Whether one looks at the recent historical monographs in Women's Studies, or the peace activists at Seneca Falls or Greenham Common, one sees a one-dimensional ghettoization of thought and action, an alienation from both the traditional revolutionary goals and utopian alternatives.

On the one hand, important aspects of feminism have been absorbed into the mainstream, while on the other, there is a self-enclosed, self-congratulatory culture of feminism that acts to remove people from the experiences of the masses. The women's movement no longer acts to educate and broaden women's perspectives but instead isolates and almost makes certain subjects and thoughts taboo: men, politics, institutions, leadership, strategy and coalitions.

Against the visions of Reaganism, the cutbacks, the war economy, and the decline in the quality of life, this society longs for a radical vision and a political culture. Given that the old family no longer exists and that work has been transformed, we can't allow the self to substitute for the power of collective and community action. Despite Reaganism, even in media terms the "gender gap" is a pale reflection of the true possibilities of progressive politics. Being a Marxist means changing one's perspective as the material, cultural and ideological conditions change. The question isn't only whether women should work or how and with whom, but what kind of work in what kind of society. What are the social conditions that will create a world worth existing in and for? As we move from civilization to barbarism we wonder whether feminism will be the vanguard or the antidote.

## Reflections on Concepts of Class and Class Struggle in Marx's Work

Charles Bettelheim

The Marxian concepts of "class" and of "class struggles" progressively take shape throughout Marx's writings. However, their successive content remains partially contradictory for the tendency to unify these concepts could not be realized in *Capital* nor elsewhere.

Different Marxisms have endeavored to propose unified concepts. They have not generally succeeded or, when these concepts have been unified (as in Lenin's work for example), it is in sacrificing the complexity of Marx's thought. In any case, here I will only discuss Marx's concepts and not the different Marxist concepts. I will seek to discern the transformations undergone by Marx's concepts, their contradictions and their limits, in order to draw out some conclusions in light of the historical experience of the past decades.

### I. Marx's diverse formulations

In the *German Ideology* (1845-46) the concept of class essentially refers to the opposition and struggles between the *dominant* and the *dominated*. The opposition is characteristic of ancient societies and the middle-ages, of "asiatic" societies as well as "bourgeois society." It rests more upon a hierarchy of powers (including here power over the means of production) than upon the production process itself.

In 1847, in *The Poverty of Philosophy*, the concept of class appears in a more rigorous fashion, and it is distinguished from the "orders" and the "estates" (*Stände*) of precapitalist societies. However, the basis of class oppositions is not analyzed in a precise fashion; it often seems to be identified with an opposition between *poverty* and *wealth*, such that the strengthening (*renforcement*) of this opposition appears as a consequence of the accumulation of wealth at one pole of society and of poverty at the other. Moreover this theme is again present in *Capital*, but it occupies a subordinate position; for here the polarization of wealth is determined by the laws of capital's movement and thus it is only a consequence of the evolution of capitalist relations of exploitation.

In the 1848 *Communist Manifesto* Marx extends the concepts of class and of class struggle to all historical societies when he writes: "The history of all hitherto existing society is the history of class struggles."<sup>1</sup>



A few lines further in this same text Marx adds that the development of capitalism leads to a situation in which, finally, "society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: Bourgeoisie and Proletariat."<sup>2</sup>

According to the *Manifesto* this confrontation between the two great classes becomes more and more open for, in its development, capitalism continually strengthens the proletariat: the men called to wield "the weapons that bring death to [the bourgeoisie]."<sup>3</sup> From this will come "the [rise of] the proletariat to the position of ruling class." This class "will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie," and will bring into play measures indispensable for "entirely revolutionizing the mode of production."<sup>4</sup>

#### A. The specificity of Marx's concepts of class and of class struggle

The statements from the *Manifesto* which were just quoted bring to light the specificity of Marx's concepts of class and of class struggle, particularly when it is a question of "modern society," that is, of *capitalism and its development*.

This specificity is characterized by the following traits:

1. Classes are subject to an *historical tendency*. This tendency leads to the division of society into *two* great antagonistic classes. The thesis of the historical tendency of class struggles thus establishes the thesis of the *polarization* of struggles between the bourgeoisie and the proletariat.
2. The historical tendency of class struggles leads to the *incessant strengthening of the proletariat*.
3. This tendency is therefore *finalized*: it must result in the constitution of the proletariat as the *dominant class* (dictatorship of the proletariat).
4. This result is only temporary: it leads to the disappearance of the capitalist mode of production and the emergence of a classless society.

It is essential to take into account this specificity of Marx's concepts, for this is what grounds his theory of history and his politics. This is why, in his letter of March 5, 1852 to Weydemeyer, Marx insists upon what makes for his "originality," namely: the idea that class struggle necessarily leads to the dictatorship of the proletariat, and that this dictatorship "only constitutes the transition to the *abolition of all classes* and to a *classless society*."<sup>5</sup>

These elements (polarization, historical tendency, final result) already appear, but without being strongly articulated, in works prior to 1848; from this date they form an original and coherent whole. They are fundamentally constitutive of Marx's thought, as he himself had reason to emphasize. Lacking these elements we are faced with a conception already long defended by numerous historians who recognize the existence of class struggles and their action upon the course of history.

It must be noted, however, that Marx goes much too far when he affirms, in

his letter to Weydemeyer, that he has "demonstrated" the propositions which make for the originality of his conception, for nothing of the like is to be found in his texts. Only *theses* and affirmed *principles* are found there: the *growing* historical role of the proletariat and the necessary character of the *outcome* (*aboutissement*) of class struggles are not demonstrated anywhere. At best Marx *begins* certain demonstrations, but nothing more.

Such a demonstration is begun in the work of the mature Marx, *Capital*, when he analyzes the laws of capital's movement. All that Marx says concerning the accumulation of capital as the concentration of wealth at one pole of society and workers deprived of the means of production at the other; as well as what he says of the numerical growth of the proletariat, of its unification through the discipline of the large factory, etc., serves to nourish this demonstration.

However, *this*—it must be acknowledged—is *not really developed*. In effect, even if what Marx writes on this really corresponds to the laws of capital's movement, nothing proves that the operation of these laws will ideologically and politically strengthen the proletariat, pushing this class in a "necessary fashion" to rise up against the bourgeoisie, to impose itself as the dominant class, and to make use of its dictatorship to establish a classless society. Marx's "economic" arguments are incapable of providing the demonstration of such an historical tendency of class struggle. Marx attempts to support his arguments through recourse to the dialectic, whether in a speculative form, or by placing it within a reasoning of an economic character.

His recourse to the dialectic is especially evident in Marx's "young works," yet it underlies his later works. It leads Marx to affirm that not only does history advance through the development of contradictions (of which the class struggle is a concrete manifestation), but it advances through the revolt and the *force of the weak*. Marx clearly expressed this theme in that young work, *The Poverty of Philosophy* (1847), when he affirms that in history "it is always the bad side that in the end triumphs over the good side."<sup>6</sup> This meta-historical and speculative principle leads Marx to write that along with the growth of the proletariat's misery, "the revolutionary, subversive side, which will overthrow the old society," is constituted.<sup>7</sup>

These speculative affirmations are not left here. Marx does not explicitly take them up again in his mature works, but they are present in new forms. In *Capital*, Marx in effect resorts to another use of the dialectic of contradiction. This pushes the dialectic of poverty and wealth to second place and advances that of productive forces and relations of production. He places in the foreground the development of productive forces and the obstacles which the relations of production oppose to it. Thus, he writes:

The monopoly of capital becomes a fetter upon the mode of production which has flourished alongside and under it. The

centralization of the means of production and the socialization of labor reach a point at which they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated.<sup>8</sup>

The metaphor of "integument" is significant. It reveals the *absence of a rigorous concept*, and entirely neglects the question of knowing at what moment, how and why the "capitalist integument" would become too limiting for the productive forces which have developed within it. Moreover, it also leaves unanswered this other question: Why should the "task" of breaking this "integument," of substituting its domination for that of the bourgeoisie, and of building a classless society devolve upon the proletariat?

The beginning of a response to this question is sketched in two directions: an "economistic" direction which presents the proletariat as the rising force of capitalism and increasingly in rebellion against it, pressing upon capitalism the growing weight of its contradictions. Yet we have already seen that this initial response does not demonstrate anything with respect to the *ultimate and radical* revolutionary role which Marx attributes to the proletariat.

Another beginning response sends us back to the texts of the young Marx: to philosophical speculation, to the *definition of the proletariat as a class entirely deprive, without anything*, which has "no particular right" and which can thus only exist as a "universal class."<sup>9</sup> This status of the proletariat is no longer the object of explicit development in the mature works, but it functions there as a presupposition. In the end it is this status which would compel the proletariat to accomplish its "historical task" of abolishing classes and of building a classless society.

By thus investing the proletariat with the character of "universal class" (which was what Hegel had invested in the Prussian bureaucracy, which had "the universal as its destiny"<sup>10</sup>), Marx had begun another "demonstration" of the historical tendency of proletarian class struggle to lead to a classless society. Although this "demonstration" may never have been pushed very far, Marx considered his "result" as "achieved." This also plays a part in the formulation of the marxian concept of class struggle. It implicitly serves to establish theses concerning the historical tendency of class struggle and the role of the proletariat as the class upon which the "historical mission" of destroying capitalism and building a "classless society" is incumbent.

#### B. Affirmation of the bipolarization tendency and its limits

In Marx's major texts capitalist society seems dominated by the tendency toward bipolarization: this society is increasingly divided between the bour-

geoisie (that is "the class of modern capitalists, owners of the means of social production and employers of wage-labor"<sup>11</sup>) and the proletariat.<sup>12</sup>

These texts not only stress the bipolarization of society and the proletariat/bourgeoisie antagonism, but they also seem to inscribe the division of society into classes entirely within the *relations of production*; each class is inserted at one pole of antagonistic production relations.

However, other texts of Marx, in the *Manifesto* as well as in *Capital*, depart from this problematic. In *Capital*, the last (unfinished) chapter concerning classes includes the following lines:

The owners of mere labour-power, the owners of capital and the landowners, whose respective sources of income are wages, profit and ground-rent—in other words wage-labourers, capitalists and landowners—form the three great classes of modern society based on the capitalist mode of production.<sup>13</sup>

As we see, this expression, contrary to others, stresses not the *bipartition* of fundamental classes in capitalist society but the *tripartition*. Marx refers to *wage-laborers* and not the *proletariat*. Moreover, he does not emphasize the relations of production, but, rather, the *sources of revenues*.

Certainly an undue importance must not be attributed to these lines of *Capital*; they do not bring into question the idea that, at the *level of struggles*, it is the opposition of wage-laborers/capitalists which is decisive for Marx. With respect to the emphasis upon the sources of revenues in this text, it is secondary, for Marx himself demonstrated that these revenues are determined by relations of production.

Thus, in spite of this statement, it must be recognized that for Marx the fundamental class opposition is *bipolar* and rests upon the process of production itself. Thus, in Volume I Marx writes:

Capitalist production therefore reproduces in the course of its own process the separation between labour-power and the conditions of labour. It thereby reproduces and perpetuates the conditions under which the worker is exploited. It incessantly forces him to sell his labour-power in order that he may enrich himself. . . . It is the alternating rhythm of the process itself which throws the worker back onto the market again and again as a seller of his labour-power and continually transforms his own product into a means by which another man can purchase him. . . . The capitalist process of production, therefore, seen as a total, connected process, i.e. a process of reproduction, produces not only commodities, not only surplus-value, but it also produces and reproduces the capital-relation itself; on the one hand the capitalist, on the other the wage-laborer.<sup>14</sup>



Apropos the tendency for the bipolarization of class struggles, an essential dimension of Marx's concept, it should again be pointed out that the unilateral emphasis placed upon this tendency can obliterate the complex phenomena connected to the proliferation—with the development of capitalism—of numerous categories of intermediary classes, like those of technicians, staff (*cadres*), administrative personnel, etc. Marx considerably underestimates the problems posed by the development of these "new middle classes." Also, when he speaks of bipolarization, he is essentially thinking of classes arising out of precapitalist social formations which, according to him, "disappear with the development of capitalism." Thus at the end of the chapter in the first Volume of *Capital*, dedicated to "The Historical Tendency of Capitalist Accumulation," Marx cites a passage from the *Manifesto* in which he declares:

The other classes decay and finally disappear in the face of Modern Industry: the proletariat is its special and essential product. The lower middle class, the small manufacturer, the shopkeeper, the artisan, the peasant, all these fight against the bourgeoisie, to save from extinction their existence as fractions of the middle class. They are therefore not revolutionary, but conservative. Nay more, they are reactionary, for they try to roll back the wheel of history.<sup>15</sup>

In this formulation we are not far from the affirmation in the Gotha Program which stated that, compared to the working class, "all other classes are *only one reactionary mass*."<sup>16</sup> We know that Marx criticized this phrase of the program (a phrase inspired by Lasalle), and that he thought he could do so by referring to the *Manifesto* itself. There he writes, in effect, that members of the middle classes come to be revolutionary "in view of their impending transfer into the proletariat."<sup>17</sup>

It must be acknowledged that this formulation is quite brief. It is meant to save the thesis of bipolarization, but it leaves open numerous questions and ignores the problems posed by the appearance of "new middle classes."

Concerning the capitalist class, Marx specifies in Volume III of *Capital* that this class is not exclusively comprised of those having legal ownership of the means of production, but that it is also made up of all those "bearers" of the *functions of capital*, those whom he calls "functionaries of capital," who may well have the status of *wage-laborer*. Marx also insists upon the fact that, along with the development of capitalism, a numerous class of commercial and industrial managers is constituted.<sup>18</sup> This remark is important, for it breaks the purely formal and legal connection which vulgar Marxism tried to introduce between "capitalism" and "private property." It brings to light that for Marx, as for Engels, what counts in the capitalist relation is the *possession* by one part of society of the social means of production, and the exploitation through the *wage-labor relationship* by those who dispose of the non-possessors' means of

production.<sup>19</sup> It can therefore be concluded that those who are *agents of capital* are part of the bourgeoisie.

For my part, I think that these analyses of Marx allow me to affirm, while remaining in accord with his fundamental theses, that, in the countries of "actually existing socialism," where only a minority possess the means of production which it valorizes through the wage-labor relationship, the *capitalist class is formed by the managers of capital*, by those who secure the general conditions of its reproduction, and by *those who appoint them and who direct them*, for they are all the agents of capital, of extraction and of reproduction of surplus-labor.

The preceding discussion shows the complexity of the determination of classes as it appears in Marx's texts. It also testifies to the scope of conclusions which can be drawn out of Marx's texts when not confining oneself to interpreting them in a literal fashion.

### C. The complexity of the determination of classes according to Marx's texts

We have seen that even in *Capital* Marx does not refer only to the structure of the process of production to define different classes. Likewise, in the *Manifesto*, the concept of class struggles is illustrated through reference to antagonisms which do not concern "classes" in the traditional Marxist sense but *orders*, or *estates*. For example, when he evokes the ancient Roman society, Marx presents the opposition between "patrician and plebeian" as a class struggle.<sup>20</sup> However, these two social groups are not engaged in antagonistic relations of production, they constitute two groups of free men and slaveowners. Later, in *Capital*, Marx writes: "The class struggle in the ancient world, for instance, took the form mainly of a contest between debtors and creditors."<sup>21</sup>

We see then that for Marx the term "class struggles" designates *structural or historically determined confrontations* between social groups which are not necessarily defined by their place in the relations of production. For Marx, however, a specific characteristic of these confrontations is that they are *historically oriented*: they must result in the final victory of those who are initially the weakest, of those who are dominated.

It is not unimportant to note that, in the case cited here, this dialectic opposes certain dominated strata (*couches*) (who function as a "class") to a dominant stratum, and not exploiters to exploited. For Marx, the history of ancient society is not essentially that of the struggle of slaves against slave owners and of their victory over them. Likewise, the history of feudal society is not essentially that of the struggle of serfs against their seigneurs; it is not completed by a victory of the first over the second. In short, taking off from Marx's texts devoted to ancient society and feudal society, we can say that for

him these are *social struggles* which, starting from a certain *acuteness* and a certain *duration*, constitute certain social groups as *classes*, for these struggles *unify* them and bestow upon their antagonism a structured action.

The extension thus given to the term "class" liberates this category from a strictly economic determination and broadens the concept of class struggles by stripping away the limits which traditional Marxist (that is, post-Marx) interpretation gives to it.

It is also important to emphasize that class struggles can develop within the dominant class itself. Marx gave numerous examples of this possibility in his own historical analyses, for example in *The Class Struggles in France* and in *The Eighteenth Brumaire of Louis Bonaparte*, and also in his theoretical texts. In *The Poverty of Philosophy* Marx indicates that members of the modern bourgeoisie, while they form one class vis-a-vis another, "have opposite, antagonistic interests inasmuch as they stand face to face with one another," and that these antagonisms flow out of the relations of production within which the bourgeoisie matures.<sup>22</sup> In the *Grundrisse* Marx speaks of profit and of interest, and develops the theme of an existing *class* of financial capitalists opposed to a *class* of industrial capitalists. He indicates that these oppositions result in genuine struggles.<sup>23</sup>

This brief examination of Marx's texts leads to the conclusion that the author of *Capital*, who did not complete his work, did not arrive at a unique and coherent conception of classes and of class struggles. It also shows that for Marx classes and class struggles are not rooted in the relations of production but, equally, in the concrete history of *antagonisms* between social forces. More precisely, we could say that for Marx *classes constitute themselves in struggle between social groups*; these struggles generally have an economic content, but they can be determined by contradictions stemming from ideology or politics; they do not only oppose exploiters to exploited.

## II. Forms of class struggles

In systematizing these remarks, it seems that one could distinguish several forms of class struggles (with inspiration from Marx's texts yet making them say more than what is found there in an explicit fashion).

### A. Struggles which constitute the reproduction of social relations

First, certain struggles are inscribed within the fundamental structure of the social formations within which they develop: they *assure the reproduction-evolution* of these social formations and not their revolutionary transformation. They are *constitutive of the reproduction of the system*. They impel it, and adapt it

to new conditions, in particular to those which are born out of productive forces, and, in general, they push toward the development of the latter. In short, these struggles are inscribed within a simple *negation of the negation* and not in a *negation-destruction*: they sustain a "dialectic of circularity" and contribute to the perpetuation of the system, to what Marx calls its "eternalization," particularly in the Introduction to *A Contribution to the Critique of Political Economy* of 1857. It is in such struggles that "structural social classes" are formed. They oppose dominant and dominated, or exploiters and exploited; but they also oppose exploiters amongst themselves, and even exploited.

### B. Struggles which transform social relations

Second, other struggles radically bring into question the existing structures of exploitation and of domination, that is, they disrupt the dominant social relations and shatter the conditions of their reproduction. These are revolutionary struggles. *They arise within concrete historical conditions*; they suppose the existence of a revolutionary class and they *give birth to this class*. Marx admits, in effect that *the proletariat is not spontaneously revolutionary, but he thinks that the historical movement of capitalism necessarily renders it so*, and so it will remain until accomplishing its "historical mission": the building of a classless society.

This poses the question of the conditions which give birth to a revolutionary proletariat, and its pursuit of what must be the ultimate outcome of class struggle.

## III. Birth of the revolutionary proletariat and accomplishment of its "historical mission"

In trying to respond to this question we can note that at various moments Marx advanced arguments which are developed on two levels. On the one hand he again takes up, under modified forms, the metaphor of an "integument," of a "limit," of a "block" to the development of productive forces which would occur at a certain stage of capitalism's maturity. On the other hand, he emphasizes the effects which capitalism's transformations would necessarily have upon the proletariat, forging a revolutionary consciousness.

### A. Capitalist limits to the development of productive forces.

One fundamental Marxian thesis is that of the *limits* which capitalism will oppose, from a certain moment of its history, to the development of productive

forces. When these limits are reached, the situation is ripe for the birth of a revolutionary proletariat. This idea is developed at several points in *Capital*, but we find it earlier in *The Poverty of Philosophy* when Marx evokes an extreme development of productive forces (which does not correspond to any precise concept) and writes:

The organization of revolutionary elements as a class supposes the existence of all the productive forces which could be engendered in the bosom of the old society.<sup>24</sup>

Such an affirmation poses a problem, precisely because it implies that there would be a sort of absolute “*limit*” to the development of the productive forces which capitalism is capable of “engendering.” Here again we find, along with other words, the metaphor of an “integument.”<sup>25</sup>

To justify this idea of an absolute limit which capitalism will oppose to the development of productive forces (a limit which will impose a revolutionary turn to class struggle), Marx puts forth the argument of periodic economic crises. This argument is present in *Capital*, but it is already at play in the *Manifesto*, where Marx writes (in 1848):

For many a decade past the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production . . . [whence] the commercial crises that by their periodical return put on its trial, each time more threateningly, the existence of the entire bourgeois society. . . The conditions of bourgeois society are too narrow to comprise the wealth created by them.<sup>26</sup>

Crises thus illustrate the existence and the effect of the “limits” or “integument” represented by capitalist social relations.

However, recognizing the existence of such “limits” does not suffice to demonstrate that these limits are *absolute* and not *relative* (which Marx in fact admits quite often). Further, admitting to such limits does not provide the basis for affirming that their existence will necessarily bring about the constitution of the proletariat into a revolutionary class, and its effective intervention for overthrowing the capitalist order. Marx does try to argue in this manner by comparing the capitalist limits to the development of productive forces to those which feudal society is assumed to have imposed upon the development of capitalism, “limits” described with the help of the metaphor of “chains.” Marx therefore traces a parallel between the future situation of capitalism and the previous situation of feudal society in which, at a certain moment, social relations ceased to correspond to the productive forces which had developed within it. From then on, he writes, these productive forces “became so many

fetters. They had to be burst asunder; they were burst asunder.”<sup>27</sup>

In the analogous situation which according to Marx matures within capitalist society, the proletariat will have to intervene to shatter, at the same time, both its own “chains” and those which fetter the development of the forces of production. We see then that Marx does not offer a true demonstration. He proceeds by an analogy between “bourgeois” revolution and socialist revolution, and he has the proletariat play the role which the bourgeoisie is considered to have played in the revolution of 1789.

All of the preceeding observations lead to not following Marx in the whole of his (often contradictory) argumentation and conclusions, and hence, to advance new formulations, some of which are more or less problematic. On the one hand, the role which the “bourgeois revolution” would have played in the advent of capitalism today appears increasingly questionable, in light of recent historical works.<sup>28</sup> On the other hand, *capitalism is in no way comparable to ‘feudalism’* because—according to Marx himself—it is a *revolutionary mode of production which continually overthrows productive forces and relations of production*.<sup>29</sup> Such a permanent overthrowing of social relations renders extremely dubious the existence of absolute “fetters” imposed one day by these relations on the development of productive forces; and therefore, the “necessary revolt” against the fetters born of these relations.

In fact, in their development, capitalist relations only relatively fetter the productive forces, they do not “block” them, although they increasingly oppress people and limit the possibilities for the free development of all. It is against this that a revolt may eventually mature, but nothing suggests that such a revolt must necessarily be “proletarian” and not interclass. Also, nothing suggests that it must lead to a revolutionary uprising or to a “revolution,” rather than to the development of a process of transformation of practices and social relations. Such a form of social emancipation allows for envisaging the development of a *multiplicity* of transforming practices, nurturing a *plurality* of movements and social organizations working in the sense of a *multiform emancipatory struggle*.

### *B. Development of the revolutionary consciousness of the proletariat*

However for Marx—and here is one of his fundamental theses—the revolution to come must be the work of the proletariat, the only class which, through the objective evolution of capitalism’s contradictions, is inevitably made to acquire a revolutionary consciousness. Marx dedicates numerous texts to this thesis, but none are truly demonstrative. Rather, we are in the presence of an addition of well-known themes: the theme of the growing *unity* of the proletariat which is forged through the struggles imposed by capital; the theme of the “educational” role of large-scale industry which teaches *discipline* to the

working class; the theme of the *polarization* of struggles which more and more openly oppose the proletariat to the bourgeoisie; the theme of the "leveling" of the proletariat, in the heart of which "machinery obliterates all distinctions of labour, and nearly everywhere reduces wages to the same low level"<sup>30</sup>; the theme of the *pauperization* of the working class.<sup>31</sup>

This addition of themes does not suffice to establish the thesis of the birth of a revolutionary proletariat which is resolved to carry out its "mission" to the end. As later history is far from confirming these Marxian themes, it suffices even less. Thus, the development of capitalism has not led to "unification" and the "leveling" of the working class; rather, it has *divided* the proletariat into a multitude of strata and categories among which bonds of effective solidarity tend to be weakened rather than strengthened. Following upon victorious struggles over particular claims more or less broad fractions of the working class tend to align themselves over certain conditions of existence and over forms of new petty bourgeois consciousness. Further, the tendency towards *polarization* of struggles finds itself radically thwarted by the multiplication of categorical demands. With respect to the discipline imposed by large-scale industry, it does not generate initiatives, but rather incites either passive obedience to the rules which capital imposes upon workers, or localized revolts which do not spontaneously converge towards a process of radical social transformations.

All these findings do not mean that, in *certain circumstances*, the working class does not become effectively "revolutionary," in the sense that in its large mass it no longer accepts the existing social and political order, and that it engages in struggle against this order. Yet, here it is a question of historical phenomena which only arise in particular concrete circumstances, and which above all seem relatively transitory, thus not very susceptible to giving birth to a lasting "*revolutionary class*" which would follow a task of "world transformation" to its end.

Therefore, in short, what workers' struggles develop most often is not a revolutionary proletariat but a working class animated by a trade-unionist class consciousness ready to struggle for partial demands and the defense of categorical interests. Marx's thesis concerning the birth of a revolutionary proletariat thus appears to be erroneous.

Lenin (following Kautsky) took into consideration this error which Marx had made. He also affirmed that the socialist revolution requires the formation of an "avant garde party" which would be the bearer of revolutionary consciousness. We know of the struggle that Lenin led to create and develop such a party, and to come to power.

However, history has shown—in accordance with what Rosa Luxemburg and Trotsky had predicted (especially the Trotsky of 1904)<sup>32</sup>—that the Leninist party, a centralized and hierarchical "avant garde," substitutes itself for the working class and ends by imposing upon this class its own dictatorship, that is,

finally, that of its Central Committee and of its highest leaders. The history of the USSR therefore shows that the Leninist path leads to the defeat of the working class and the construction of a society dominated by a new bourgeoisie.

### Conclusion

In summary, it appears that the Marxian thesis—which crowns Marx's conception of the historical tendency of class struggle—according to which the proletariat necessarily acquires a revolutionary consciousness, placing it in a position to accomplish its "historical task," is neither shown by Marx's texts, nor confirmed by the history of the more than one hundred and thirty years which have passed since the publication of the *Manifesto*.

Finally, Marx only developed in a partial, unequal and unsatisfactory fashion the concepts of "class" and "class struggle." His theses concerning the revolutionary role of the working class seem to reflect more the combativeness of the workers of nascent industry than the preparation for long and open struggles by the workers of developed industrial capitalism.

On the whole Marxists who have commented upon *Capital*, or upon other texts of Marx, have only made a weak contribution to the solution of the problems raised by the author of *Capital*. They have wanted to stay too strictly "faithful" to the texts, even though they are commenting. In general, they have had the tendency (with some recent exceptions, including Gramsci and, on a different account, Althusser) to treat struggles, in "economistic" terms, as only having historical import if they also take on an ideological and political dimension, and cease being essentially workers' struggles.

In view of the problems posed by the existence of classes and of class struggle, especially considering those posed by the tasks of social emancipation which prescribes a combat against exploitation, an immense work remains to be done. At the theoretical level this work must aim at transforming an ensemble of fundamental Marxian concepts so as to take account of the lessons of history. This history shows, in effect, that the paths upon which humanity has embarked until now, while looking to break with capitalism, have not led to a social emancipation but on the contrary, to a heightened subjugation and exploitation. Other paths must be laid out capable of encouraging multiform actions, of subverting the dominant social relations, of attacking different modes of domination, and of bringing into question the wage-labor relationship (whose nature must be more profoundly analyzed and specified).

Critical examination of Marx's texts and of historical experience constitutes an incontrovertible requirement if we want to enlighten future actions and not fall back into the illusions and tragic errors of the past.



## Notes

1. Karl Marx and Frederick Engels, *Manifesto of the Communist Party*, in Marx and Engels, *Selected Works*, Volume One, (Moscow, Progress Publishers, 1973), p. 108. (Translator's note: Rather than translating the quotes that appear throughout the text, readily available English sources have been given, except where indicated.)
2. *Ibid.*, p. 109.
3. *Ibid.*, p. 114
4. *Ibid.*, p. 126
5. Karl Marx, "Letter to Joseph Weydemeyer," Marx and Engels, *Selected Correspondence, 1844-95*, (Moscow, Progress Publishers, 1975), p. 69. Emphasis in the original.
6. Karl Marx, *The Poverty of Philosophy*, (New York: International Publishers, 1975), p. 121.
7. *Ibid.*, p. 126
8. Karl Marx, *Capital*, Volume I, (New York: Vintage, 1977), p. 929.
9. Karl Marx, "Toward a Critique of Hegel's Philosophy of Law: Introduction," Lloyd D. Eason and Kur H. Guaddat, editors, *Writings of the Young Marx on Philosophy and Society*, (New York Doubleday, 1967), pp. 261-263.
10. G.W.F. Hegel, *Philosophy of Right*, as cited in Karl Marx, "Critique de la philosophie du droit," *Marx-Engels Werke*, tome 1, (Berlin: Dietz Verlag, 1970), p. 390. (Translated from the author's text.)
11. *Manifesto*, see Engels' footnote to the 1888 English edition, p. 108.
12. The proletariat being defined as "the wage-laborers who produce capital and valorize it." Karl Marx, *Le Capital*, Livre III (Paris: Editions Sociales, 1959), p. 55, n. 1 (Translated from author's text.)
13. *Capital*, Volume III, (New York: Vintage, 1981), p. 1025.
14. *Capital*, Volume I, pp. 723-724.
15. *Manifesto*, pp. 117-118. Also cited in *Capital*, Volume I, p. 930.
16. Marx, *Critique of the Gotha Program*, in *Selected Works*, Volume III, p. 20. Emphasis in the original.
17. *Manifesto*, p. 118.
18. *Le Capital*, Livre III, tome 7, p. 51.
19. *Ibid.*, n. 11, p. 9.
20. *Manifesto*, p. 108.
21. *Capital*, Volume I, p. 233.
22. *The Poverty of Philosophy*, p. 123.
23. Karl Marx, "Principes d'une Critique de l'Economie Politique," Karl Marx, *Oeuvres-Economie II*, (Paris: La Pleiade, 1965), p. 245.
24. *The Poverty of Philosophy*, p. 174.

25. *Misere de le philosophie*, Karl Marx, *Oeuvres-Economie I*, p. 7.
26. *Manifesto*, pp. 113-114.
27. *Ibid.*, p. 113.
28. See F. Furet, *Penser la revolution francaise*, (Paris, Gallimard, 1978).
29. Marx insists upon this point in the *Manifesto*, p. 112, and frequently returns to it in *Capital*.
30. *Manifesto*, p. 116.
31. This theme, already present in the *Manifesto* (p. 119), is taken up again in *Capital* and in other works, but with nuances. Thus, in Volume I of *Capital*, in the chapter on "The General Law of Capitalist Accumulation," Marx renounces developing the theme of pauperization to its end. (pp. 798-799). In so doing he weakens the thesis of the growth of the revolutionary consciousness of the proletariat as an effect of capitalism's development.
32. See Leon Trotsky, *Nachi Polititcheskie Zadatchi*, (Geneva, 1904), p. 54; as cited by I. Deutscher, *Trotsky*, tome 1, (Paris: Julliard, 1962), p. 132.

# The Labor Theory of Value and the Specificity of Marxian Economics

Samuel Bowles and Herbert Gintis

The labor theory of value, once the centerpiece of Marxist thought, has become its embarrassment. Its widespread rejection, prevalent within the left among both economists and non-economists alike, represents a major component of what is termed the "crisis of Marxism."

Yet the labor theory of value has been more ignored than criticized by Marxists in the advanced capitalist nations, who consider it a painful reminder of that thankfully superseded economism which characterized dominant versions of Marxism during the early part of this century. Indeed, this reaction has been quite general within the European and North American left. Certainly one could not accuse such creative thinkers as Antonio Gramsci, Frantz Fanon, Jean Paul Sartre, Andre Gorz, Jurgen Habermas, Louis Althusser, Agnes Heller, Herbert Marcuse, or Leszek Kolokowski, to name a few, with any undo concern for the subtleties of Marxian value and crisis theory.

Not all Marxists have been content, however, to extend a benign neglect to the labor theory of value. Indeed, the assessment of Marx's economic endeavors is often no less than vigorously hostile. Witness the following commentary of the distinguished Marxian historian Edward P. Thompson:

Marx was *caught in a trap*: the trap baited by "Political Economy." . . . Value, capital, labour, money, value, reappear again and again, are interrogated, re-categorized, only to come round once more on the revolving currents in the same forms, for the same interrogation. When one considers the philosophical breakthrough of the 1840s, and the propositions which inform the *German Ideology* and the *Communist Manifesto*, there would appear to be indications of stasis, even regression, in the next fifteen years.<sup>1</sup>

These fifteen years, one need hardly say, mark the conception and execution of Marx's major work in economic theory, *Capital*.

Increasingly, Marxists are ready to leave the serious study and debate of economic theory to its specialist practitioners, regarding the industrial reserve army, the value of labor power, the extraction of labor from labor power, and the organic composition of capital as little more than the permissible—if pedantic—concerns of a refined and arcane academic subculture. This situation has prompted Perry Anderson's insight that "Western Marxism as a whole thus paradoxically inverted the trajectory of Marx's own development itself. Where the founder of historical materialism moved progressively from philosophy to

politics and then economics. . . the successors of the tradition . . . increasingly turned back from economics and politics to philosophy."<sup>2</sup>

Anderson attributes this "paradoxical inversion" to the displacement of Marxism from working class politics to the halls of academia in the course of the twentieth century. But the structure and evolution of Marxian economic theory itself cannot so easily be absolved in explaining the flight from what had been the dominant concerns of Marx's mature work. Nor should the philosophical concerns of Western Marxism be regarded as the unfortunate manifestations of the increasingly academic environment within which Marxian theory is produced. Quite the contrary: a thorough rethinking of basic Marxian philosophical concepts was the necessary foundation for an effective critique of the two central vulgarizations into which Marxian theory had fallen: economic determinism and formalist structuralism. The former involved the reduction of all regions of social life to the effects of "the economy," while the latter involved a similar reduction of social change to the effects of the institutional structures of society. Contemporary Marxism has overcome some of the shortcomings of both by loosening or transcending the strict passage from economy to society as a whole, and by entertaining a balanced interaction between objective conditions (structure) and action within these conditions (practice).

Marxian economic theory, however, has remained almost entirely isolated from these philosophical currents. The labor theory of value in most twentieth century versions is a purely structural theory, capable, it is thought, of generating the "laws of motion" of capitalism, without sustained theoretical attention to human intentionality. As a result, Marxian economics has become a classic example of what Helmut Fleischer has termed "nomological Marxism," which is "based on the logic of objective historical structures and processes" and within which "history is regarded as a natural process taking place within definite laws."<sup>3</sup>

The theoretical commitments of Marxian economics thus render it not only incapable of, but as well uninterested in, an analysis of the political and cultural dimensions of economic life. As Lucio Colletti has noted:

The 'economic sphere'—which in Marx had embraced both the production of *things* and the production (objectification) of ideas; production and intersubjective communication; material production and the production of social relations . . . was now seen as one isolated factor, separated from the other "moments" and thereby emptied of any effective socio-historical content. . . "<sup>4</sup>

The "subjective" factors relating to power, the formation and clash of wills, and the problem of agency, are systematically ignored, or considered irrelevant to the basic operation of the capitalist economy.

The excision of the "subjective" does not reflect a simple prejudice against the cultural or political dimensions of social life among Marxist economists. Rather it is embedded in the inexorable logic of the structure of the theory itself. The capitalist, on pain of extinction, *must* invest in the areas of maximum return, and *must* organize production according to the principles of technical efficiency. The capitalist is thus reduced to the executor of a logic implied by a structure of prices and input-output relations. The worker, in turn, is reduced to the status of commodity, a mere "use-value" to the capitalist. Neither capitalist nor worker exercises real choices; each does what it is compelled to do by the structure of the economy.

Faced with the thorough-going economic and nomological commitments of most versions of the labor theory of value, few Marxists have sought to rethink and recast the basic concepts of Marxian economics. Most have instead supported what may be termed a "photographic reduction": like the irredeemably bad boy who is told at least to be quiet if he cannot be good, Marxian economics has been put in its place. The traditional analysis of the economy goes unaltered, but "the economy" is reduced to a minor position within Marxian theory, a region of social life best left to the expert of the "dismal science."

The theoretical implications of the photo reduction have been little short of disastrous. First, the downplaying of economics has rendered Marxism less than able to explain the evolution of the fundamental structures of advanced capitalist society, whose contours are shaped and reshaped by the crisis-ridden world wide expansion of capital and the social conflicts thereby engendered. Second, political and cultural elements are in fact an integral part of the very *constitution* of economic relations. Without reference to these elements, the most fundamental of economic activities, such as the exchange of labor-power for a wage, or the organization of the production process, the rate of unemployment, or the profit rate, cannot be coherently depicted. Thus the photo-reduction does not simply *downplay* the economy; more importantly, it *misunderstands* it.

Surmounting this debacle requires a fundamental rethinking of Marxian economic categories. We shall here describe one strategy for such a rethinking, one based on the view—forcefully expressed by Paul Sweezy in his response to the Sraffian critique of the labor theory of value—that the specificity and analytical power of Marxian economics resides in its representation of labor as human activity, categorically distinct from other inputs, and irreducible to them or to other commodities.<sup>5</sup>

#### *The Labor Theory of Value and the Specificity of Labor*

One of the authors of this essay had the good fortune—while young and impressionable—to be a target of Harry Magdoff's genial insistence that the

new left should take the labor theory of value more seriously. We were less than persuaded of its centrality at the time. But Magdoff was right. The labor theory of value *is* the centerpiece of marxian economics. But which labor theory of value?

The labor theory of value includes the following three fundamental propositions:

*Proposition A:* Labor is a practice, and cannot coherently be represented as a commodity.

*Proposition B:* Labor power bears a price and is exchanged on markets, but the economic theory describing the determination of the price of labor power (the wage) and its allocation must be substantially distinct from the theory relevant to commodities in general.

*Proposition C:* Labor values, or more technically, the socially necessary abstract labor time embodied in commodities, is the foundation of the Marxian theory of exploitation and accumulation.

While Propositions A and B—encompassing Marx's argument for the specificity of labor—have been largely ignored by critics of the labor theory of value, Proposition C—sometimes termed the law of value—has been a favored target for friends and foes alike, from Bohm-Bawerk to the present. Indeed, it has been shown by Piero Sraffa and his followers in the Cambridge (England) school that Proposition C is superfluous.

Labor values, Sraffian economists have correctly insisted, make no irreducible analytical contribution to our ability to represent the profit rate, the wage rate, or prices in terms of the underlying physical conditions of production and distribution.<sup>6</sup> Moreover, while Marx's insight that the surplus (and therefore exploitation) can be coherently expressed in terms of labor values has emerged unscathed and perhaps even vindicated by recent mathematical investigations in economic theory, it has nonetheless suffered a curious fate: for the same mathematical structures which convincingly demonstrate the *possibility* of representing the surplus as surplus labor time also demonstrate that *any* non-luxury commodity could as readily be the basis for the representation of the surplus.<sup>7</sup> The notion that labor alone is capable of producing a surplus is thus either a rather uninteresting tautology based on the definition of "labor" and "produce," or it is false.<sup>8</sup> Whether the surplus is denominated in hours of labor time or in bushels of grain thus becomes a matter of personal taste or ideological preference. If labor's capacity to produce a surplus were the foundation of the Marxian claim for the specificity of labor, the claim would surely have to be rejected.

But the Cambridge school, in rejecting the notion of labor values, hardly

provided an alternative. For the Sraffian model lacks any theoretical justification whatsoever for distinguishing between labor and other inputs. In fact, it has engineered a wholesale conversion of Marxian economics from a theory of the reproduction of workers by means of labor to a theory of the production of commodities by means of commodities, if we may invoke the catchy but infelicitous title of Sraffa's most important book. In the Sraffian system labor is distinguished from other non-luxury commodities not by any of its objective characteristics, but rather by a value judgement: the theorist's concern for the distribution of income between capital and labor.

A more reasonable response to the challenge of the Cambridge school, we suggest, is to reject Proposition C while rebuilding Marxian economic theory around Propositions A and B. Clearly there is no theoretical problem involved in such a strategy, since none of the three propositions implies or presupposes the others. This approach was sketched by Paul Sweezy in 1979, when he criticized Cambridge economics for its having jettisoned *not* only the use of labor values (concerning which Sweezy expressed a certain skepticism), but the specificity of labor as well. He notes that in capitalism, "production of by far the most important single commodity, labor power, is *not* organized or controlled by capitalists. Much that is most distinctive and valuable in Marx's analysis of capitalism stems from the fact that he never for one moment lost sight of this crucial difference between labor power and other commodities."<sup>9</sup>

We shall show that Propositions A and B yield distinct analytical results unattainable in a theory—whether Sraffian, neoclassical, Keynesian, or whatever—which treats labor as an object, and these results bear consequences of considerable importance. The central analytical concept will be what we term a *substantive* rather than a *formal* distinction between labor and labor power, based on the treatment of labor as the initiator of practices rather than as an object.

### *Labor as Object*

If labor could be treated theoretically as an object, little different—except empirically and morally—from other inputs, the distinction between labor and labor power would hold no more theoretical interest than a simple translation of one metric (hours) into another (work): the amount of labor performed could be represented as a given multiple of the number of hours hired. In this case the following unfortunate theoretical results would obtain in a competitive model of the type Marx describes in Volume 3 of *Capital*.

First, capitalists would be forced by competitive pressures to utilize efficient technologies, and to adopt an efficient organization of production. It follows that neither technologies nor the organization of production would be altered by a change in the ownership or decision making structure of the firm unless this



change altered relative input or output prices. The clear implication is that a shift to democratic worker management could alter the distribution of income in the firm, but could change the social organization of production only at the cost of lower productivity.

Second, just as the capitalist will avoid paying more for a ton of coal than the minimal supply price, so to will he seek the lowest price of an hour of labor power, preferring to hire women over men, or blacks over whites, should their wages (for equivalent levels of productive capacity) be lower. Those who, for racist, sexist, or whatever reasons, persist in hiring high priced white male labor will be eliminated by competition.

Finally, if labor is "just another input," then any unsold units of labor must be considered to be voluntarily withheld from the market. For, as with a glut of shirts on the clothing market, the excess supply can be eliminated if the seller is willing to lower the price. In this case, unemployment must be considered voluntary, based on a refusal to work for a lower wage—a form of speculation in one's own productive capacities. Involuntary unemployment could still occur as the result of frictions in the adjustment process, but we would have no more reason in the long run to expect excess supply than excess demand in the labor market.

The political import of these three consequences of treating labor as an object are clear enough. The first constitutes a wholesale denial of the critique of domination, boredom and fragmentation of work life; for if worker-run firms would organize production no differently from capitalist enterprises, the issue becomes a trivial choice of masters, neither of which exercise substantive options in the determination of technology and the structure of work life. The second implication of treating labor as an object is that racism, sexism and other forms of discrimination will wither away as a natural result of capital's competitive search for superprofits. Racism and sexism may exist, but only *despite* the competitive structure of capitalism. The third implies that unemployment is neither the source of social waste, nor even a social problem—any more than is the fact that many workers do not choose to work full time.<sup>10</sup>

The treatment of labor as an object thus achieves a radical partition in economic thought: politics is banished from production. Because production is both efficient and apolitical, the socialist critique of capitalist production—that it is undemocratic, unjust, and wasteful—is narrowed to the problem of distribution of property. Socialism is thus trivialized as the redistribution of property, with the cultural addition of the dissemination of "new values."

### *Labor as Subject*

However, it can be easily shown that when labor is treated as a subject rather than an object, in conformity with Propositions A and B, each of the above

implications is sharply contradicted. Formally, such a treatment may be accomplished using the following (reasonable) assumptions. First, the output produced per hour of labor depends upon the level of work effort chosen by the worker. Second, the level of work effort is not enforceable through the employment contract between capitalist and worker. However, work intensity can be enhanced by capitalist strategies which are resource-using, and hence costly. Third, to the extent that the fruits of work effort accrue to the capitalist, the worker is more likely to prefer a lower level of effort to a higher.

The production process may thus be represented by two relationships: first, the combination of labor (work) with non-labor inputs to produce a given output; and second, the extraction of labor from labor-power through the combination of labor power with whatever inputs the owner allocates to induce a specific level of work intensity. We term the first the input-output relation and the second the labor extraction relation. The latter is precisely the missing relationship, whose absence from Sraffian, Keynesian, and neoclassical models implies the treatment of labor as an object.

Labor must be *extracted* from labor power because workers will not willingly pursue the type and intensity of labor which maximizes profits. Indeed, the social structure of the capitalist production process—most particularly its authoritarian and exploitative form—induces a level of conflict over the organization and intensity of work above and beyond the conflicts induced by the simple free rider problem which would exist in any social organization.

But how is labor to be extracted? As capital's only formal power is the threat of firing, the extraction must be induced, in the last instance, by enhancing this threat. Specifically, capital may raise the expected cost to the worker of pursuing a non-work strategy by any one of the following three counter-strategies: (a) raising the expected cost of losing one's job; (b) raising the expected probability of getting fired if detected pursuing a non-work strategy; (c) increasing the probability of being detected if pursuing a non-work strategy. By investigating the application of these strategies, we may come to understand why the three implications of the labor as object view of production—efficient production, no discrimination, and no involuntary unemployment—are false. Let us consider each.

The probability that a non-work strategy will be detected by the employer will depend on the organization of work and the efficacy of the capitalist's surveillance system. The capitalist can organize the work process so that each worker's performance is more visible and measurable, for example through the use of such production techniques as the assembly line. Even when such techniques are less efficient in the input-output sense, they may be profitable due to their ability to secure a high level of labor input (effort). Similarly, the capitalist can divert resources from production into surveillance—in the form of careful accounting, electronic equipment, surveillance personnel, and the like. In either case, the claim that cost reduction pressures render capitalist

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production efficient must be rejected. Were it not for the problem of extraction of labor from labor power, additional resources could be allocated to increase output per worker, to shorten the work week, or to lower work intensity.

Next, consider the probability of being fired if a non-work strategy is detected. For simplicity we will represent this probability as a decreasing function of the unity of the work-force; if firing a worker will incite a strike or slowdown of all workers, the capitalist will think twice about firing a worker whose non-work strategy has been detected. In general the degree of unity of the work force will depend on its racial, sexual, age credential based, and other divisions—including differences in wages and hierarchical status within the firm.<sup>12</sup> Thus the discriminating capitalist may facilitate the firing of a worker and otherwise weaken workers' bargaining power by promoting division, invidious distinction and hierarchy, even when such policies are costly and irrational from the standpoint of efficiency. Discrimination is thus consistent with rational profit maximization in a competitive environment.

Lastly, consider the third capitalist strategy, raising the cost to the worker of being fired. In view of the fact that the expected duration of the worker's spell of unemployment, and the level of unemployment benefits are both beyond the control of the firm, the only way the capitalist can raise the cost to the worker of getting fired is to pay the worker more than the wage which would make the worker indifferent between being fired or not. But if the profit-maximizing wage is thus higher than the worker's supply price, other workers who currently lack jobs would also prefer to have a job at that wage rather than remaining unemployed. And if this is the case, they are involuntarily unemployed in any reasonable sense of the term.

Thus this simple model of labor extraction illustrates the fact that profit maximization and labor market equilibrium—even under the most stringent atomistic competitive assumptions—does not lead to market clearing. Unemployment, in the context of capitalist production, is thus involuntary and wasteful.

### *Marxian Economics and the Economics of Marx*

While the reader may find our representation of the capitalist production process persuasive, or at least worthy of further development, some may find it at best only remotely related to Marx's own conception of the economy, and hence scarcely considered part of the labor theory of value—or perhaps of any Marxian theory at all. Were this true, the implications might be minimal. For our concern is hardly to vindicate Marx. Whether or not germane, however, the claim that Marx had in mind no such notion of the production process appears to be false.

First, the central role of work resistance and its intimate connection to the

social organization of the work process and the distribution of the fruits of labor is but an application of Marx's concept of the social production of the individual through labor, and the alienation of labor under conditions of capitalist production, which occupied a central role in his work from the *Paris Manuscripts* through *Capital*. The worker, says Marx

confronts nature as one of her own forces, setting in motion arms and legs, head and hands, the natural forces of his body, in order to appropriate nature's productions in a form adapted to his own wants. By thus acting on the external world and changing it, he at the same time changes his own nature. He develops powers that slumber within him, and subjects them to his own control.<sup>13</sup>

Yet under conditions of capitalist production, he argues,

labour is *external* to the worker . . . in his work, therefore, he does not affirm himself but denies himself . . . His labour is therefore not voluntary but coerced; it is *forced labour* . . . Its alien character emerges clearly in the fact that as soon as no physical or other compulsion exists, labour is shunned like the plague.<sup>14</sup>

Second, some of the more insightful passages in *Capital* concern the manner in which the extraction of labor from labor power renders the wage something considerably more (and less) than the simple payment for an input. Thus in Volume III of *Capital* Marx writes that to consider the wage as representing the price of labor is "as irrational as a yellow logarithm." Why? Because, while

on the surface of bourgeois society the worker's wage appears as the price of labor, as a certain amount of money that is paid for for a certain quantity of labor . . . It is not labor which directly confronts the possessor of money on the commodity market, but rather the worker. What the worker is selling is his labor power.

As a result,

According to the amount of actual labor supplied every day, the same daily or weekly wage may represent very different prices of labor, i.e., very different sums of money for the same quantity of labor . . . [An] increase in daily labor may occur through the lengthening of the work day. However . . . the same result might follow if instead of the extensive magnitude of labor, its intensive magnitude increased. The rise in the nominal daily or weekly wage may be unaccompanied by any change in the price of labor or may even be accompanied by a fall in the latter.

Third, this peculiar characteristic of the wage suggests a more general distinction between the exchange of commodities and the payment of a wage in return for labor time:

the exchange between capital and labor . . . splits into two processes . . . : (1) the worker sells his commodity . . . (labor power) . . . which has . . . as a commodity . . . a price . . . (2) The capitalist obtains labor itself . . . the productive force which maintains and multiplies capital . . . *the first act is an exchange and falls entirely within ordinary circulation: the second is a process qualitatively different from exchange, and only by misuse could it have been called any kind of exchange at all.*

Lastly, our treatment of involuntary unemployment and the threat of job loss as a determinant of work effort is simply a restatement of part of Marx's theory of the reserve army:

The industrial reserve army weights down the active army of workers . . . it puts a curb on their pretensions. The relative surplus population (e.g., unemployment) is therefore the background against which the law of supply and demand of labor does its work. It confines the field of action of the law to limits absolutely convenient to capital's drive to exploit and dominate the workers.<sup>15</sup>

These citations, which could be readily extended, suggest that Marx had in mind a model akin to that sketched above in more contemporary language. Indeed, in his major work, he devoted at least as much attention to the process of extracting work from workers as to the issues more commonly considered to be the gist of the labor theory of value: the embodiment in commodities of socially necessary abstract labor time. Central to the former, and at best implicit in the latter, is the clash of wills between capital and labor, as well as the direct exercise of power by the employer over the worker. As the last of the above cited passages makes quite clear, Marx considered the economy to be a political system. We shall close by considering some of the implications of this political concept of the economy.

### *The Economy as a Political System*

Given Marx's concept of labor as practice, and of exploitation as the domination of labor through a structure of power, it is ironic and regrettable that in the past half century at least, the labor theory of value has been associated with a nomological and economistic conception of Marxism. Notable among

the many consequences of this association has been the tendency of critics of economistic and formalistic structuralism to be critics of Marxian economics as well. Whether under the banner of the Primacy of the Political, or travelling in the more subtle currents of cultural analysis and intersubjectivity, Marxists who would save Marxism from economism have mistakenly attempted to save Marxism from economics.

But if we are correct, the supposed opposition between culture and politics on the one hand and economics on the other is based on the false conception of the economy as a-political and devoid of cultural content. Thus the crucial flaw in economistic Marxism is not the importance attributed to the economy, but the conception of the economy itself. Whence the misconceived notion of the photo-reduction as a strategy to rid Marxism of economism. To suggest a more auspicious strategy we must locate the theoretical roots of economistic economics.

Despite their many differences, nomological Marxian economics shares with its neoclassical adversary, and with Sraffian and Keynesian economics as well, a conception of the capitalist economy as a property-based system of contractual exchange, sometimes referred to in Marxian theory as generalized commodity exchange. As such, the political aspects of the economy are confined to the protection of property rights and the enforcement of contracts. Both of these political elements lie within the realm of the state rather than the economy. The economy is thus essentially apolitical.

The labor extraction mechanism described above illustrates a major shortcoming of this conception. For it demonstrates that a fundamental capitalist relationship, that between employer and employee, cannot be treated as a contract enforced by means of the coercive apparatus of the state. The capitalist economy is political, we have argued, because the power to enforce the labor exchange must be embodied to a major extent in the structure of capitalist production itself.

Yet to assert the political nature of the economy raises deep conceptual and theoretical issues. We may begin with the notion of "the political" itself. If the economy is political, then we must clearly abandon the identification of politics with such notions as "what goes on in the state," or "the struggle for state influence and power." Similarly we must reject the notion that economic activity is absent from so-called "superstructural" institutions as the state and the family.

We believe this may be accomplished by relying on the Marxian concept of *practice*: an active intervention on the part of an individual or a group, with the *project* of transforming some aspect of social reality, the *object* of the practice.

A practice may be considered from a variety of aspects. Considered as a project whose object is an aspect of the natural world, we speak of an *appropriative practice*. *Distributive practices* are those whose object includes the distribution and re-distribution of use-values, positions and prerogatives



within a given set of rules of the game. When the object is, however, the rules of the game themselves the practice may be considered from the standpoint of the stabilization or transformation of a structure of social relations. We speak of this as a *political practice*.

Practices are *structured* by a specific set of social relations, in the following related ways: (a) the forms and rewards of participation of individuals in a practice are socially regulated; (b) the range of feasible alternative forms of practice are socially delimited; and (c) the potential effectiveness of distinct types of practice are socially mediated.

We may capture the forces regulating, delimiting, and mediating—in short, structuring—social practices in the concept of the *site*. We conceive of a site as a region of social life with a coherent set of constitutive social relations—the *structure* of the site. Thus in the advanced capitalist social formation, the liberal democratic state, the capitalist economy, and the patriarchal family may be considered sites in that each may be characterized by a distinct set of “rules of the game” governing appropriative, distributive, political, and other practices. An illustrative example appears in figure 1.

Figure 1  
Sites and Practices: Some Illustrative Examples

Sites	Practices		
	<i>Appropriative</i>	<i>Distributive</i>	<i>Political</i>
Capitalist Economy	Workers convert ore into steel	Employer lowers the real wage	Union wins control over monitoring of safety conditions in the plant
Liberal Democratic State	Municipal workers generate electricity in city power plant	City refuses to raise wages of public employees	City workers win the right to collective bargaining
Patriarchal Family	Wife makes dinner	Children ask for larger allowance	Wife demands the family move to allow her to take a better job

Our conception of the economy as political is thus a special case of the more general proposition that each site of which society is comprised possesses its unique political structure, in the sense that each organizes in a substantively distinct manner the array of political practices taking place within it.

A fundamental implication of this proposition is that the very definition of

state and economy must be reformulated. For in Marxian as well as traditional social theory, it is commonplace to define a site by its *function* or by the *characteristic practices* which occur within it. Yet we submit that a site in general must be conceived not in terms of what is done there, but rather how *whatever* is done there is *regulated*.

For instance, it is standard in Marxian theory to specify the state as the instrument of reproduction of class relations. Yet as we have seen, the political character of the economy *itself* is a dominant force promoting the reproduction of class relations. Similarly, it is common to define the economy in terms of the *appropriative practices* which it structures. Yet appropriative practices take place in families, in the state, and throughout the society. Moreover, the capitalist economy structures political and cultural practices as well as appropriative, and its basic functioning can be understood only in terms of the way in which it integrates a *range* of social practices.

We distinguish economies from other spheres of social life by the fact that their rules of the game confer power, sanction participation, and distribute rewards, on the basis of *property relations in the means of production*. Slave, feudal, capitalist, and state socialist economies thus represent distinct forms of property relations defining rules of participation in the appropriative, political, and other social practices engaged in.

To avoid misunderstanding, we should point out that our conception of the economy is not aimed at one or the other side of the old base-superstructure debate. More specifically, to assert the ubiquity of appropriative and distributive practices through the social system and to insist on the political nature of all sites, including the economy, does not commit us to any particular pattern of determination between the economy and the rest of society.

While largely independent from the base-superstructure debate, our conception of sites and practices has quite direct implications concerning socialist politics. Thus the notion of the economy as political does more than solve the explanatory shortcomings of traditional economic theories. It bears practical emancipatory implications as well. For as a political system, the capitalist economy falls short of commonly held ideals of liberty, democracy and participation. Rather, by vesting rights of participation and control in the ownership of property, capitalism betrays its character as a relatively pure example of autocratic rule.

Our conception of the economy as political also supports a view of socialism as, among other things, the extension of rights of participation and decision-making to the economy. The debate over the relative merits of private and collective property can be discarded in favor of the more pertinent and surely more auspicious debate over how people might effectively control their own lives, and how members of a society might collectively control the evolution of laws, social forms, economic exigencies, and social meanings which heretofore have appeared as but various forms of domination.

## Notes

1. E.P. Thompson, *The Poverty of Theory and Other Essays*, London: Merlin Press, 1978, p. 291.
2. Perry Anderson, *Considerations on Western Marxism*, London: New Left Books, 1976, p. 52.
3. Helmut Fleischer, *Marxism and History*, New York: Harper and Row, 1969, p. 13.
4. Lucio Colletti, *From Rousseau to Lenin*, New York: Monthly Review Press, 1972, p. 65.
5. Paul Sweezy, "Marxian Value Theory and Crisis," *Monthly Review*, Vol. 31, no. 3, July/August 1979, pp. 1-17.
6. See Ian Steedman, *Marx After Sraffa*, London: Monthly Review Press, 1977.
7. Consider an economy with two goods, food (F) and jewelry (J). Food is used to produce all goods and is in the wage bundle, while jewelry is consumed only by nonworkers and is not used in production. Suppose 1/2 bushel of F and 1/2 hour of labor are used to produce one bushel of F, and 1/2 bushel of F is in the wage bundle. Also suppose 1/4 bushel of F and one hour of labor is used to produce a unit of J. We obtain labor values by defining the value of labor power as unity, and the value of jewelry and food as the amount of labor time directly and indirectly embodied in them. It is easy to see that the value of labor power,  $V-l$ , is given by  $V-l = (1/2)V-f$ , where  $V-f$  is the value of food. Also, the value of food is given by  $V-f = (1/2)V-f + 1/2$ . Thus  $V-f = 1$  and  $V-l = 1/2$ . Also, the value of jewelry is given by  $V-j = (1/4)V-f + 1 = 5/4$ . Finally, the rate of exploitation of labor power is  $S-l = (1 - V-l)/V-l = 1$ . Labor is therefore exploited. The same is true, however, for a food theory of value. We now define the value of food as unity, and the value of jewelry and labor as the amount of F directly and indirectly embodied in them. It is easy to see that new  $V-f = 3/4$ ,  $V-j = 3/4$ , and  $V-l = 1/2$ . The rate of exploitation of food-power is  $S-f = (1 - 3/4)/3/4 = 1/3$ , so food is exploited!
8. Samuel Bowles and Herbert Gintis, "Structure and Practice in the Labor Theory of Value," *Review of Radical Political Economy*, Vol. 12, no. 4, Winter 1981, pp. 1-27.
9. Sweezy, op. cit.
10. For a development of this theme, see Herbert Gintis, "The Nature of the Labor Exchange," *Review of Radical Political Economics*, Vol. 8, no. 2, Summer 1976; Samuel Bowles, "The Production Process in a Competitive Economy: Walrasian, Neo-Hobbesian, and Marxian Models," *American Economic Review*, March 1985, and Herbert Gintis and Tsueneo Ishikawa, "Wages, Work Discipline, and Macroeconomic Equilibrium," draft, September 1983.
11. For a more complete treatment of this theme, see the references cited in footnote 10.
12. See Gintis, "The Nature of the Labor Exchange"; and Michael Reich, *Racial Inequality and Class Conflict*, Princeton: Princeton University Press, 1980.
13. Karl Marx, *Capital* Volume I.
14. Karl Marx, "Economic and Philosophical Manuscripts of 1844," reprinted in Robert C. Tucker, *The Marx-Engels Reader*, New York: Norton, 1972, p. 60.
15. The above quotes have been drawn from Karl Marx, *Capital*, Volume III, New York: International Publishers, 1967, Chapter 19, pp. 675, 677, 683-4, 792; and Karl Marx, *Grundrisse: Introduction to the Critique of Political Economy*, New York: Vintage, 1973, pp. 274-5.

# The Centrality of Money, Credit, and Financial Intermediation in Marx's Crisis Theory: An Interpretation of Marx's Methodology

James Crotty

## I. Introduction

There is a striking paradox that confronts the reader of that part of the modern literature on Marxian crisis theory written in English. On the one hand, it is evident that monetary and financial problems have been and continue to be at the very center of the recurring economic crises that have afflicted most capitalist economies in the past fifteen to twenty years. These economies have experienced roller-coaster inflation, secular stagnation, domestic credit crunches and recurring waves of bankruptcy. Simultaneously, the international financial system that guided the general prosperity of the 1950s and 1960s has broken down, giving way to a decade of unpredictable, disruptive gyrating exchange rates. International debt crises of suffocating magnitude ensnare most of the Third World and a good deal of the Second as well. The business press asks with regularity if an international financial collapse of depression-producing magnitude is very likely, or only moderately likely: the answer changes from time to time.

On the other hand, the Marxian crisis theory literature has had very little to say about monetary and financial aspects of capitalist macrodynamics. Issues of money, credit, financial intermediation, inflation and the institutional structure of domestic and international financial regimes pass almost unnoticed as debate rages intensely around impediments to accumulation in the sphere of production. Yet a well-developed, rich monetary and financial theory is essential to the construction of a Marxian theory of accumulation and crisis adequate to comprehend the complex and threatening events of the current era.<sup>1</sup>

The essays by Harry Magdoff and Paul Sweezy on the state of the U.S. and world economy that have appeared over the years in *Monthly Review* constitute an important exception to the general absence of discussion and debate among Marxist economists on these issues. Their "Reviews of the Month" have consistently stressed the fundamental importance of money, credit and financial intermediation in the modern capitalist economy.<sup>2</sup> Indeed, it is almost

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impossible to read *Monthly Review* on a regular basis and avoid the conclusion that a gaping hole exists in the main body of literature on Marxian theories of accumulation and crisis where a well-developed theory of money and finance should be found.

In the body of this paper we will argue for the importance of money, credit and financial intermediation in a Marxist theory of accumulation and crisis. Our major objective is to demonstrate that the relative neglect of money and finance in the Marxian literature is inconsistent with Marx's own emphasis on these aspects of accumulation and crisis and to show that the de facto dismissal of the centrality of money and finance in much of this literature is based on a basic misunderstanding of Marx's analytical methodology.

## II. The Logic of Marx's Crisis Theory: An Overview

Modern Marxian crisis theorists typically take as the starting point of their analysis a thorough study of the laws of capitalist production. Only when they have accomplished this task do they turn their attention to the sphere of circulation, the sphere that incorporates monetary and financial phenomena. And their analysis of circulation is, in most cases, an afterthought, conducted more or less in passing.<sup>3</sup> As aspects of accumulation and crisis located outside the sphere of production—the really “important” sphere, the “essence” of which circulation is mere “appearance” or “manifestation”—monetary and financial phenomena have been relatively neglected by Marxian theorists.

Worse yet, in treating circulation as subsidiary to production, such theorists mistakenly assume that they are reproducing the methodology Marx used in *Capital*. They are misled, we believe, by the fact that Marx analyzed credit and financial intermediation in detail only in Parts Four and Five of *Volume Three* of *Capital*, after all aspects of the laws of motion of capitalism traditionally accepted as important had already been theorized. The location of the chapters on credit and financial intermediation as well as the relatively low level of abstraction at which the analyses in these chapters is conducted may have been taken as indicators of the low theoretical priority Marx attached to these subjects.

Contrary to the interpretation implicit in much of the traditional literature, we read Marx as building his theory of capitalism's laws of motion on the fundamental methodological assumption that circulation and production constitute a unified whole and that aspects of production have no a priori logical priority over aspects of circulation in the analysis of accumulation and crisis. Capitalism is a mode of economic organization based on the production of commodities, goods and services produced not for direct consumption but for exchange on market. An economic theory of the capitalist mode of production and exchange therefore requires a general theory of commodity exchange, a

theory of specifically capitalist production relations and the integration of the two constituent theories.

The logic of exposition used by Marx in *Capital* reflects this analytical structure. Part One of *Volume One*, entitled “Commodities and Money,” contains an analysis, conducted at a high level of abstraction, of the commodity exchange economy. Marx abstracts from the specifics of production relations to maximum feasible extent in the analysis of simple commodity production (hereafter SCP) elaborated in this section.<sup>4</sup> The theory of capitalism proper does not begin until Chapter Four; that is, until after the presentation of an extensive analysis of the general properties and attributes of the commodity exchange economy or of simple commodity circulation. Most important, the analysis of capitalist production relations that occupies much of the remainder of *Capital* assumes and is conditioned by the previously theorized model of commodity exchange. The complete theory of the capitalist mode of production then is the contradictory unity of capitalist commodity exchange and capitalist production, or of circulation and production.

There have been many explanations offered as to why Marx organized *Volume One* of *Capital* in the precise form in which it was published. It is generally assumed that the primary purpose of Part One is to accomplish two tasks. First, it outlines Marx's theory of value, thereby paving the way for the analysis of the origins or “secret” of surplus value presented in Part Two. Second, it shows that a society based on commodity exchange must develop commodity money as a universal means of, or intermediary in, commodity circulation: money is a condition of existence of simple commodity circulation. This fact creates the logical possibility that money, as the embodiment of exchange value, will begin to act as “an autonomous economic agent; . . . as starting and final point, and not simply intermediary, of a process of circulation; of money bent upon accretion of money, that is of capital.”<sup>5</sup> In other words, in Part One Marx is preparing the reader for the switch from C-M-C to M-C-M', from SCP to capitalism, elaborated for the first time in Chapter Four, and is creating the foundation for the analysis of surplus value presented in Chapter Six.

Both of these crucial analytical tasks are indeed performed in Part One of *Volume One*, but they do not exhaust the important accomplishments of this section of *Capital*. For our specific purposes here, it is most important to understand that in these same pages Marx presents an analysis of the crisis potential of the advanced (nonbarter) commodity exchange economy, an analysis that takes place almost entirely in the sphere of circulation.<sup>6</sup> In his analysis of SCP in Part One Marx constructs a key concept that he elsewhere refers to as “abstract forms of crisis” in the commodity exchange economy. Basing his analysis of the crisis “possibilities” in SCP on the functions of money and the natural evolution of contracts and credit in commodity exchange, Marx shows that any economic system organized through com-

modity exchange is anarchic; it is structurally vulnerable to disequilibrium and crisis. And the degree and character of the anarchy and incoherence of SCP and of capitalism depends upon the relative importance and particular institutional underpinnings of the various functions performed by money in each mode. Thus, before Marx even begins his analysis of specifically capitalist production relations he has established that the theory of money and credit and the theory of crisis are so intimately intertwined that they are analytically inseparable.

The major point is this: the abstract forms or models of crisis in commodity exchange constitute a structural framework within which Marx builds his analysis of capitalist production relations. Marx's theory of the crisis tendencies of capitalist production relations—the focus of the crisis theory literature—is affected or conditioned by his theory of commodity exchange even as the model of simple commodity circulation is transformed by its integration with capitalist social relations. Just as Marx constructs his concept of capitalism as the unity of commodity exchange and capitalist relations of production, his theory of accumulation and crisis is the dynamic interaction of the forms of crisis or crisis potential of (capitalist) commodity circulation and the “inevitable” crisis tendencies inherent in capitalist production.

From his analysis of capitalist production Marx develops the familiar tendencies of the rate of profit to alternately rise and fall over time, tendencies that help generate the unstable growth pattern characteristic of capitalist economies. This analysis is fundamentally incomplete, however, because conditions in the sphere of circulation in any era codetermine the vigor of accumulation, the degree and character of the vulnerability of accumulation to adverse financial or nonfinancial developments, the timing of the onset of crisis, and the depth and duration of contraction. Indeed, in the absence of an analysis of circulation it is not clear why a fall in the rate of profit should lead to crisis at all; a lower but positive rate of growth is a more logical outcome of a decline in the profit rate taking only production relations into consideration. Marx's views on accumulation and crisis are neither complete nor compelling unless understood as the unity of circulation and production.<sup>7</sup>

Seen in this light, the fundamental reason that the traditional crisis theory literature incorrectly relegates monetary and financial aspects of crisis theory to such an inferior analytical status is its failure to appreciate the theoretical significance of Marx's analysis of the crisis potential of commodity exchange. The centrality of money and credit is established at the highest level of abstraction in the analysis of SCP with which Marx opens *Capital* while the function of the analysis in Parts Four and Five of *Volume Three* is to provide a detailed and institutionally concrete elaboration of the role of money and finance in specifically capitalist macrodynamics. Banks and securities markets are *capitalist* institutions. Within SCP, the analysis of money and credit is restricted to commodity money and commercial or trade credit. Marx's introduction and analysis of capitalist production relations in *Capital* enables

him to radically transform and enrich the theory of commodity circulation and its forms of crisis because it permits credit money, bank loans, and stock and bond markets to be theorized. Marx did not relegate his discussion of financial intermediation to the end of *Volume Three* because circulation is of secondary importance in his crisis theory; rather, its location was dictated by the fact that financial intermediation could not be analyzed until the concepts of capital, interest-bearing capital and surplus value had been theorized.

One caveat is in order before proceeding: our emphasis on the importance of monetary and financial phenomena in Marx's theory of accumulation and crisis should not be misinterpreted as an argument that circulation should have logical priority over production in Marxian theory. It is certainly not our intention to commit the traditional error in reverse. Marx repeatedly criticized all economists—“bourgeois” and socialist alike—who argued that the credit system is *the* cause, indeed the only possible cause, of capitalist crises. Much of the first section of the *Grundrisse*, for example, is taken up with an attack by Marx on Proudhonist schemes designed to eliminate crises by replacing money and credit with a system of labor-time chits. Marx's main point in these polemics is that a commodity-exchange economy is crisis prone or anarchic, and a capitalist economy even more so, independently of credit. Therefore, you cannot surgically remove capitalist instability (or exploitation) by replacing its financial system with utopian credit or labor-bank schemes. Unfortunately, Marx's criticisms of schools of thought that see all crises as imposed by “irresponsible” financial activity on an otherwise crisis-free capitalism have been frequently misinterpreted as an argument that the financial system is an unimportant aspect of his crisis theory. It is this misinterpretation that we wish to correct.

In the remaining sections of this paper we will further develop these ideas, attempting to justify and support the arguments made here. We begin with a discussion of Marx's theory of the crisis potential of simple commodity circulation.

### III. Simple Commodity Production and Abstract Forms of Crisis

Perhaps the best statement by Marx on the role of monetary and financial phenomena in his theory of capitalist crisis can be found in Chapter 17 of *Theories of Surplus Value*. In this chapter Marx lays out with clarity the appropriate theoretical relation between the analysis of SCP and the analysis of capitalist production relations in the complete theory of capitalist crisis.

In Chapter 17, Marx introduces a concept that is central to his development of the methodology of capitalist crisis theory and central to our argument about the key role played by monetary and financial behavior in his theory: the



concept of an *abstract form of crisis*. The term *form* refers to an economic model; in this case a model of simple commodity circulation. The adjective *abstract* indicates that the models to be considered are quite simple, incorporate little or no institutional detail, and, most important, abstract as much as possible from reference to specific relations of production: the analysis of these abstract forms of commodity exchange never leaves the sphere of circulation. They are forms or models of *crisis* because Marx uses them to demonstrate that a commodity exchange economy is crisis prone or has crisis potential independently of its specific production relations. Disequilibrium, aggregate supply-demand imbalance and instability are characteristics of the models or forms of SCP examined by Marx in this Chapter.

In Chapter Three of *Volume One of Capital*, Marx discusses five different "functions" performed by money in SCP: as measure of value (hereafter MMV), means of circulation (MMC), store of value or hoard (MH), means of payment (MMP) and as means of international payments settlement or world money. In Chapter 17, Marx differentiates his abstract forms of SCP on the basis of the functions of money that each form or model incorporates. He concentrates on two such abstract forms of crisis. The first abstract form of crisis explicitly incorporates MMC and implicitly considers MMV and MH. The second, more complete, or "more concrete" abstract form incorporates MMP as well. We label the first form SCP-through-MMC and the second SCP-through-MMP. In both Chapter Three of *Volume One of Capital* and Chapter 17 of *Theories of Surplus Value*, Marx uses his analysis of the functions of money in SCP to attack Say's Law and to demonstrate that commodity exchange economies contain the "formal possibilities of crisis"; they are anarchic. Moreover, the more important the advanced functions of money—such as MMP or world money—in the economy, the more crisis-prone the economy becomes.

Both chapters present these same basic arguments; nevertheless, they are complements, not substitutes. The analysis in *Capital* presents a richer, more detailed discussion of the various functions of money, while in Chapter 17 Marx is much more explicit about the analytical method or logic he is using to develop his theory of capitalist crisis. In Chapter 17 he argues that because capitalism is a commodity exchange economy its general or abstract laws of circulation must be developed from an analysis of SCP such as the one presented in Part One of *Volume One of Capital*. This analysis of the sphere of circulation produces abstract forms of crisis, models that demonstrate the crisis potential of capitalism and stress monetary and financial phenomena. But, Marx goes on to argue, the crisis potential of SCP or, indeed, of capitalist commodity circulation is not a theory of the *causes* of crisis in capitalism or of capitalism's laws of motion. A complete theory of crisis requires the analysis of the general laws and tendencies inherent in the specific production relations of the capitalist mode of production, the subject matter of the traditional crisis

theory literature. This analysis provides the "concrete," "compelling motivating factors" missing from the analysis of abstract forms. The analysis of circulation provides the framework, the structure, the abstract forms within which the contradictions of capitalist production relations take place or are embedded.<sup>8</sup> Although choppy and unpolished, Chapter 17 has the great advantage of being methodologically more self-conscious than Chapter Three of *Volume One of Capital*.<sup>9</sup>

### III. a. *The First Abstract Form of Crisis: Money As Means of Circulation*

In Part One of *Volume One* Marx compares two logically distinct forms of noncapitalist commodity exchange: barter and simple commodity production. In direct barter, C-C, products are exchanged for products without the intermediation of money as a means of commodity circulation. In Marx's concept of barter economy, "the bulk of production is intended by the producer to satisfy his own needs, or, where the division of labour is more developed, to satisfy the needs of his fellow producers . . . that are known to him. What is exchanged as a commodity is the surplus and it is unimportant whether this surplus is exchanged or not."<sup>10</sup> Barter, therefore, represents a relatively primitive form of commodity production and exchange, one in which exchange value, the market system, or the "law of value" does not yet dominate and control the social division of labor. It reflects a simple, uncomplicated way of economic life, one implicitly assumed to take place within limited geographic boundaries.

As such, C-C holds no interest for Marx insofar as his task is to develop a crisis theory. In barter, the individual act of commodity exchange is a complete act; C-C represents simultaneous purchase and sale, not only in the tautological sense that each commodity is purchased in the same act in which it is sold, but also because each transactor makes a sale through the same act by which he purchases.

When we proceed to SCP, however, money as *means of circulation* ruptures the simultaneity of purchase and sale. In SCP the individual act of exchange is by its nature incomplete; it is only one link in an ever-expanding chain of actions and interactions. C-M-C consists of two logically distinct phases, C-M and M-C. C-M may represent the final stage of exchange for the money holder, who must have previously sold a commodity in exchange for the money he uses here to obtain a product for consumption as a use-value, but it only represents the starting point for the commodity owner who has exchanged his product for money. This transactor must now go on to attempt to complete the exchange cycle through a third party. The third agent, of course, must find a fourth, who desires to engage in a C-M transaction with the third agent. And so on.

SCP is thus qualitatively different from barter in that it separates the acts of

purchase and sale in time and space and inevitably draws vast numbers of producers into a complex, interlocked, interdependent *system* of social relations of production and exchange. As Marx puts it:

We see here on the one hand, how the exchange of commodities [SCP] breaks through all the individual and local limitations of the direct exchange of products [barter], and develops the metabolic process of human labour. On the other hand, there develops a whole network of social connections of natural origin, entirely beyond the control of the human agents.<sup>11</sup>

Since each individual agent's sale of his or her commodity is dependent upon the successful sales and purchases by "innumerable" others, the entire society of commodity producers is drawn together in a network of mutual interdependence, a system in which rupture at any point can lead to disruption everywhere, a system beyond anyone's control. And the creation of this system, the weaving together of this web, the breaking through the boundaries and limitations of barter, is accomplished by and through money. Because it is the medium of circulation, money becomes the medium of social cohesion, the tie that binds the fortunes of economic agents one to another.

The existence of MMC, of the requirement that economic agents must first convert the commodities they produce into money before they can obtain use-values, dramatically alters the system characteristics of commodity exchange in SCP from those associated with its barter form: Say's Law cracks under the weight of MMC. Indeed, Marx's analysis of crisis in SCP can be thought of as extensive critique of the idea enshrined in Say's Law that commodity exchange economies with money can be adequately theorized as very complex systems of barter in which money really does not matter. The fundamental distinction between Marx's analysis of the dynamics of advanced commodity exchange and "the childish babble of a Say"<sup>12</sup> or, one might add, of a Walras or a Friedman, is precisely the distinction between a monetary economy and barter.

The following quotation shows quite clearly that Marx believed that the introduction of MMC into the commodity exchange model created a mode of economic organization in which crises were possible:

No one can sell unless someone else purchases. But no one directly needs to purchase because he has just sold. Circulation . . . [splits] up the direct identity . . . between the exchange of one's own product and the acquisition of someone else's into the two antithetical segments of sale and purchase. To say that these mutually independent and antithetical processes form an internal unity is to say also that their internal unity moves forward through

external antithesis. These two processes lack internal independence because they complement each other. Hence, if the assertion of their external independence proceeds to a certain critical point, their unity violently makes itself felt by producing—a crisis. There is an antithesis, immanent in the commodity, between use-value and exchange-value, between private labour which simultaneously manifests itself as directly social labour, and a particular concrete kind of labour which simultaneously counts as merely abstract universal labour. . . ; the antithetical phases of the metamorphoses of the commodity are the developed forms of motion of this immanent contradiction. These forms therefore imply the possibility of crisis, though no more than the possibility. For the development of this possibility into a reality a whole series of conditions is required, which do not yet even exist from the standpoint of the simple circulation of commodities.<sup>13</sup>

One of the most important logical implications of letting money stand between purchase and sale is the elimination of the analytically instantaneous character of commodity exchange in barter: money introduces the passage of *time* into the model. In turn, the separation of purchase and sale, or the passage of time while money is suspended between acts of circulation, implicitly introduces two new related monetary concepts into Marx's analysis: money as an asset, "hoard" or store of wealth, and the "velocity" of money or its speed of circulation. Money as a hoard, MH, is a component of the SCP-through-MMC form.

Marx's argument above clearly implies that the velocity of money as a medium of circulation may slow down; that is, the time during which it stands suspended between acts of exchange may lengthen. "No one needs to purchase because he has just sold"; money can be held rather than spent for some variable period of time. Moreover, the idea that velocity can slow down is intimately related to Marx's assertion that there can be a general excess supply of commodities—a crisis of reproduction—in SCP. For example:

. . . the velocity of circulation of money is merely a reflection of the rapidity with which commodities change form. . . . In the velocity of circulation, therefore, appears the fluid unity of the antithetical and complementary phases, . . . or the two processes of sale and purchase. Inversely, when the circulation of money slows down, they assert their independence and mutual antagonism; stagnation occurs. . . . The circulation itself, of course, gives no clue to the origin of this stagnation; it merely presents us with this phenomenon.<sup>14</sup>

What Marx is doing here is considering disequilibrium aspects of SCP, arguing that the aggregate supply of commodities can exceed the aggregate demand for commodities—hence crisis—precisely because money exists not just as a medium of circulation but as an asset or store of wealth as well. Indeed, in *Theories of Surplus Value* he states his argument in the modern form we associate with Walras Law, defined here as the statement that the sum of the excess demands of all commodities *including money* is equal to zero. There can be an excess supply of all commodities—a general glut—if at the same time there is an excess demand to hold money. If we consider SCP, Marx tells us:

At a given moment, the supply of all commodities can be greater than the demand for all commodities, since the demand for the *general commodity*, money, exchange value, is greater than the demand for all particular commodities, in other words the motive to turn the commodity into money, to realize its exchange-value, prevails over the motive to transform the commodity into use-value.<sup>15</sup>

We turn briefly to the function of money as a measure of value. Money—here gold—is the universal general equivalent and hence “the necessary form of appearance of the measure of value which is immanent in commodities, namely labour-time.”<sup>16</sup> The interesting aspect of MMV for us is that money acts as a measure of value *before* it acts as a means of circulation: time intervenes between the two functions. By MMV, Marx refers to the *estimate* of the value of a commodity made by its owner or by others prior to its actual sale.

Since the expression of the value of commodities in gold is purely and ideal act, we may use purely imaginary or ideal gold to perform this operation. Every owner of commodities knows that he is nowhere near turning them into gold when he has given their value in the form of a price or of imaginary gold. . . In its function as measure of value, money therefore serves only in an imaginary or ideal capacity.<sup>17</sup>

Thus, MMV measures the expectations of commodity owners as to the value they will receive in the market when they actually exchange their commodity for gold; that is, when money acts as a means of circulation.

Nothing guarantees, however, that the expectations of commodity owners will be fulfilled. Indeed, the lack of any preordinating mechanism in a commodity exchange economy practically guarantees that these expectations will not be fulfilled. If the value actually received at sale is greater than, equal to, or not much below expectations, reproduction need not be disrupted. But if conditions change substantially between the time that money acts as measure of value and as means of circulation, a crisis could develop.

The real significance of the separation of money into MMV and MMC (or the recognition of the passage of time between the decision to produce and the sale of the product) for monetary and crisis theory cannot be established, however, until the point has been reached where Marx introduces money as a means of payment into the analysis of SCP. It will not attain its maximum significance until production, especially capitalist production, is incorporated into the model. It is only with contracts, credit and financial intermediation, and with time-consuming interdependent production and circulation processes involving long-lived capital goods that the potential differences between the price expectations that guide decisions to produce and prices *actually prevailing* at the time of sale take on a key, and often a dominating, role in crisis theory.

Even so, Marx comments right at this point about the anarchic character of a mode of production in which expected values and realized values diverge. The fact that a producer accurately estimates the average or trend value of his commodity does not guarantee that the market price will adequately reflect that value when the good is sold. The price of a commodity, Marx tells us:

however, may express both the magnitude of value of the commodity and the greater or lesser quantity of money for which it can be sold under the given circumstances. The possibility, therefore, of a quantitative incongruity between price and the magnitude of value, i.e., the possibility that the price may diverge from the magnitude of value, is inherent in the price-form itself. This is not a defect, but, on the contrary, it makes this form the adequate one for a mode of production whose laws can only assert themselves as blindly operating averages between constant irregularities.<sup>18</sup>

Chapter Three of *Volume One* of *Capital* thus contains Marx's basic argument that it is the intervention of money into direct commodity circulation, the monetization of the exchange economy, MMC, that creates the potential for crises. In Chapter 17 of *Theories of Surplus Value* Marx presents the same basic analysis, but the language he uses there makes it harder to misunderstand the theoretical status of the abstract forms of crisis in SCP and their centrality in his theory of *capitalist* crisis. We quote Marx from Chapter 17 in order to call attention to the important terms and concepts that he uses there:

Crisis results from the impossibility to sell. . . The difficulty of converting the commodity into money, of selling it, arises from the fact that the commodity must be turned into money but the money need not be immediately turned into commodity, and therefore *sale* and *purchase* can be separated. We have said that this *form* contains the *possibility of crisis*, that is to say, the possibility that elements which are correlated, which are inseparable, are separated. . .<sup>19</sup>

The SCP model theorized only through the function of money as means of circulation thus represents a "form" within which crisis is possible because sale and purchase are separated and thus have the potential to temporarily lose their unity, to become, for a time, independent. Having established this point about the SCP-through-MMC form, Marx immediately tells us that a theory of a form with crisis potential is not yet a theory of crises, an explanation of why capitalist crises *must* take place:

The general abstract possibility of crisis denotes no more than the *most abstract form* of crisis, without content, without a compelling motivating factor. Sale and purchase may fall apart. They thus represent potential *crisis* and their coincidence always remains a critical factor for the commodity. The transition from one to the other may, however, proceed smoothly. The *most abstract form* of crisis (and therefore the form of possibility of crisis) is thus the *metamorphosis of the commodity* itself; the contradiction of exchange-value and use-value, and furthermore of money and commodity, comprised within the unity of the commodity, exists in metamorphosis only as an involved movement. The factors which turn this possibility of crisis into [an actual] crisis are not contained in this form itself; it only implies that *the framework* for a crisis exists.<sup>20</sup>

SCP-through-MMC constitutes an abstract form of crisis, indeed the most abstract form of crisis. It has crisis potential. But crisis need not occur; this form provides no content, no compelling, motivating factor to cause crisis. "The transition" from sale through purchase "may, however, proceed smoothly." SCP-through-MMC therefore "only implies that *the framework* for crisis exists."

The same basic point is made in the following argument:

The *general possibility* of crisis is the formal metamorphosis of capital itself, the separation in time and space, of purchase and sale. But this is never the *cause* of the crisis. For it is nothing but the *most general form of crisis*, i.e., the crisis in its *most generalized expression*. But it cannot be said that the *abstract form of crisis* is the *cause of crisis*. If one asks what its cause is, one wants to know why *its abstract form*, the form of its possibility, turns from possibility to actuality.<sup>21</sup>

And if one does want to know why crisis "turns from possibility to actuality," one must shift the focus of the analysis from circulation to production or from SCP to capitalist production relations. What one should *not* do is forget that the

abstract forms of crisis constitute the framework within which the analysis of production takes place, a framework which is itself transformed in that analysis.

Even this framework is incomplete, however. The completion of the abstract framework for crisis in SCP requires the integration of the remaining functions of money in the model.<sup>22</sup> The incorporation of the function of money as means of payment, MMP, represents the most significant extension of the crisis framework. Theorizing MMP in SCP constitutes a qualitative increase in the analytical power of the framework as a form within which to build a concrete theory of capitalist crisis. And it is with the SCP-through-MMP abstract form of crisis that Marx introduces contracts, commercial credit (and paves the way for the introduction of financial intermediation) into his theory of crisis.

### III. b. The Second Abstract Form of Crisis: Money as a Means of Payment or the Contract Economy

In Chapter 17, Marx introduces a second abstract form of crisis in SCP:

It can therefore be said that the crisis in its first form is the metamorphosis of the commodity itself, the falling asunder of purchase and sale. The crisis in its second form is the function of money as a means of payment, in which money has two different functions and differs in two different phases, divided from each other in time. Both these forms [SCP-through MMC and SCP through-MMP] are as yet quite abstract, although the second is more concrete than the first.<sup>23</sup>

The introduction of money as means of payment—money used by a borrower to fulfill a legally-binding contract—in the theory of SCP is the key analytical step required to demonstrate the basic thesis of this paper that money, commercial credit and financial intermediation play a central role in Marx's crisis theory. With his analysis of MMP in SCP, Marx introduces the concepts of contracts and credit, extends the degree of systematic interdependence of economic agents in SCP, substantially alters the impact of time and the role of history in the model, theorizes the monetary crisis and lays the foundation for the financial crisis, and introduces the essential notion of a contractually rigid or fragile reproduction process. Clearly, the significance of MMP for Marx's crisis theory is more profound than most of the modern Marxian crisis literature acknowledges.

Contracts, Marx tells us, develop naturally out of the evolution of the circulation process. Contractual arrangements arise initially out of regularly repeated transactions between the same buyers and sellers. The first type of contract discussed by Marx is one made to reduce the uncertainty involved in



obtaining a given commodity at a given time at a given price. Commodities:

may . . . be ordered for a future date at which they are to be delivered and paid for. The sale in this case takes place only nominally, i.e., juridically, without the actual presence of commodities and money. The two forms of money, means of circulation and means of payment, are still identical.<sup>24</sup>

The circulation of commodities thus "gives rise to private, legally enforceable contracts among commodity owners."<sup>25</sup> Marx also mentions advance payment, using rental property as an example.

Neither of these contractual arrangements involve credit; contractual commitments clearly are not restricted to credit contracts. It is with commercial or trade credit contracts, however, that money acts as a means of *deferred* payment. In producing trade credit, SCP simultaneously produces another function of money and another time-consuming stage in the circulation of commodities.

The seller sells an existing commodity, the buyer buys as the mere representative of money, or rather as the representative of future money. The seller becomes a creditor, the buyer becomes a debtor. . . . [Here] money receives a new function as well. It becomes the means of payment.<sup>26</sup>

With credit, the functions of MMV, MMC, and MMP constitute three separate stages that intervene between the direct exchange of commodities.

The two equivalents, commodities and money, have ceased to appear simultaneously at the two poles of the process of sale. The money functions, now first as a measure of value in the determination of the price of the commodity sold; the price fixed by the contract measures the obligation of the buyer, i.e., the sum of money he owes at a particular time. Secondly, it serves as a nominal means of purchase [or nominal means of circulation]. Although existing only in the promise of the buyer to pay, it causes the commodity to change hands. Not until payment falls due does the means of payment actually step into circulation, i.e., leave the hand of the buyer for the seller.<sup>27</sup>

Thus, the addition of the function MMP to the SCP form extends the separation in time between purchase and final sale involved in commodity circulation and makes the process more complex: instead of two separate acts required to complete circulation—C-M and M-C—we now have three—C-D;

D-M; and M-D, where D stands for a debt contract. Agent A sells a commodity to agent B on credit; a contract, D alienates his product. Agent B now *must* resell this commodity (or one produced using it as input) to some agent C in order to obtain the money needed as means of deferred payment to fulfill his contract with A.

The time of circulation is extended because the same commodity must be sold twice: once to B and once to C. The circulation process has also become more complex because agent A now depends directly on the behavior and circumstances of *two* other agents to complete the conversion of his commodity into money. Thus, the degree of systematic dependence of each agent on all others is extended by the same conceptual phenomenon that lengthens the time it takes to circulate a given set of commodities.

Note that MMP introduces a new 'motive' for selling a commodity. Initially, with MMC, commodities were sold in order to obtain the use-value associated with the commodities purchased using the proceeds of sale. MH brought with it a new motive: the lust for gold. Now commodities were sold in order to accumulate wealth per se. *With MMP, the borrower sells because he must*, in order to pay off his creditor.

The seller turned his commodity into money in order to satisfy some need; the hoarder in order to preserve the monetary form of his commodity; and the indebted purchaser in order to pay. If he does not pay, his goods will be sold compulsorily. The value-form of his commodity, money, has now become the self-sufficient purpose of the sale, owing to a social necessity springing from the conditions of the process of circulation itself.<sup>28</sup>

Note also that, as we shall see below, the compulsion to sell, the forced sale of commodities (and, later, financial assets) by the indebted commodity-owner creates "that aspect of an industrial and commercial crisis . . . known as a monetary crisis" and lays the foundation for the conceptualization of the financial crisis.<sup>29</sup>

The concept of a *contractual commitment*, a legal obligation to engage in some activity, deliver or accept some product or service, and/or pay a specific amount of money at some specific future date adds a whole new dimension to the theory of the crisis potential of SCP. The problem of crisis or incoherence in the SCP form with money as MMV, MMC and MH but not MMP is essentially one of unpredictability. Since purchase and sale, supply and demand are 'independent', no agent can be sure that the labor embodied in his commodities will be exchangeable for an equal amount of the socially necessary labor time of others. The value of his commodities measured in his mind or in his planning when money serves as a measure of value may be much greater than the value he actually receives upon sale. Moreover, there is no mechanism to assure that

such deviations will be immediately self-correcting. Nothing guarantees that the next round of commodity circulation won't bring an even greater imbalance of supply and demand, wider relative price changes, and even greater disruption in the reproduction process than the preceding one. Should the level of unpredictability and incoherence reach a point where a substantial number of agents begin to sell without buying, to hold onto money, a deflationary spiral can develop. Deflation, of course, enriches money hoarders; thus, a downward price spiral can be self-reinforcing and a 'crisis' of reproduction might take place.

The agents in the first abstract form of SCP, in other words, are subject to the anarchy of an economy not under their control. Therefore, they are vulnerable to the threat of unforeseeable, unavoidable capital losses caused by an unequal exchange of labor-time as prices fluctuate between production plan and sale. Nevertheless, there is a high potential degree of resilience, flexibility and adaptability in this theoretical system because there are few transmission mechanisms to infect one cycle of reproduction with the problems of previous cycles. However badly treated an agent may be in one cycle, he enters the next round of circulation as ready to be integrated in an overall 'equilibrium' as he was before; that is, the outcomes of one cycle need not severely restrict the system's potential for coherence in the next cycle. As a general rule, with the important exception that agent expectations must be historically determined and the theoretically trivial exception (trivial with respect to this issue) that wealth is redistributed among agents each period, each round of circulation is analytically independent of the rounds which preceded it. Reproduction is unburdened by and unconstrained by its past.

With contracts all this changes. In the economic form of SCP theorized to include the function of money as means of payment the reproduction or accumulation process must drag its history with it as burden and constraint. Once future commitments are embedded in the system through contracts, any price vector which would have cleared commodity markets in the absence of contracts will not necessarily produce coherence: only prices that enable most of the contracts to be fulfilled can avoid crisis. *Contracts and credit create a variable degree of rigidity or fragility in the reproduction process.* Future commitments build around any value structure which is maintained for some time; the longer the structure holds, the more extensive the web of interlocked commitments that builds up around it. Moreover, the longer a structure is maintained, the more confident agents become that it will continue to hold. Increased confidence, in turn, leads to longer time horizons on contracts and therefore to more restrictive conditions for crisis avoidance. The precise articulation of the credit-contract linkages connecting economic agents in SCP proper depends on the structure of production (the input-output relations among industries and firms) and the structure of circulation or trade. The more highly developed and complex these underlying structures, the more fragile the

condition of the credit-contract matrix and the greater the crisis potential of the model.<sup>30</sup>

Under such conditions, a significant change in the price-value structure can render contractual commitments unfulfillable. A chain reaction follows: agent A cannot pay agent B, who in turn cannot pay agent C, and so on. A wave of bankruptcies may result. Various markets for commodities and financial assets will come under pressure, and may collapse, because real and financial assets must be sold to fulfill contractual commitments; that is, to raise money as means of payment. *A contract economy is thus qualitatively more fragile, subject to more crises and to deeper crises than an economy without contracts.* It is also capable of longer and more vigorous periods of growth to be sure, but, as we shall see below, this growth only paves the way for future depressions and stagnations.<sup>31</sup>

Marx's discussion in Chapter 17 of the way in which the incorporation of MMP heightens the crisis potential of SCP parallels his Chapter Three treatment but, again, the theoretical structure and location of the argument in his general theory of capitalist crisis is made much clearer in Chapter 17. Consider, for example, the following assessment of the crisis potential of the contract economy:

The general *possibility* of crisis is given in the process of *metamorphosis of capital* itself, and in two ways: in so far as money functions as *means of circulation*, [the possibility of crisis lies in] the separation of *purchase and sale*; and in so far as money functions as *means of payment*, it has two different aspects, it acts as *measure of value* and as *realization of value*. These two aspects [may] become separated. If *in the interval* between them the value has changed, if the commodity at the moment of sale is not *worth* what it was *worth* at the moment when money was acting as a measure of value and therefore as a measure of the reciprocal obligations, then the obligation cannot be met from the *proceeds of the sale of the commodity*, and therefore the whole series of transactions which retrogressively depend on this one transaction, cannot be settled.<sup>32</sup>

Two central elements are involved in Marx's stress on the significance of MMP in this quotation. First, agents undertake contractual commitments at one point in time to exchange money (or commodities) at a specific time in the future. These contracts are based on estimates or expectations of the prices and values that will prevail at the relevant future date. If relative prices or the absolute price level change in an unexpected way between the time the contract was written and the end-point of the contract, one of the contracting agents—the debtor in a credit contract—may not be able to fulfill his

contractual commitment. Of course, there is no way that agents can know what future price structures will be like: the future—especially in anarchic, unplanned market-organized economies—is in principle unknowable. Yet, the “*comparison of value in one period with the value of the same commodities in a later period . . . forms the fundamental principle of the circulation process of capital.*”<sup>33</sup>

Second, as we saw above, the contract economy develops not just isolated reciprocal future commitments between pairs of agents, but a complex interdependent *system* of interlocked commitments drawing most agents into its web. The “*whole series of transactions which retrogressively depend on this one transaction, cannot be settled.*” The contract economy, in other words, can evolve into a very rigid, fragile condition, one in which relatively minor unforeseen events can disrupt reproduction through a snowballing, falling-domino process of contractual failures, bankruptcies and their aftereffects.

MMP and the emergence of contractual commitments means that it may not be sufficient for crisis avoidance for agents to be able to sell their commodities or even to sell them at the right price: they must sell at the required price *within a restricted time period*.

If even for only *a limited period of time* the commodity cannot be sold then, although its value has not altered, *money cannot function as means of payment*, since it must function as such in a *definite given period of time*. But as the same sum of money acts for a whole series of reciprocal transactions and obligations here, *inability to pay* occurs not only at one, but at many points, hence a *crisis* arises.<sup>34</sup>

Finally, Marx links the second form of crisis potential, SCP-through-MMP, to the particular aspect of crisis known as money crisis or monetary crisis, that phase in the development of an economic downturn in which agents are *forced* to sell commodities to raise the money required to meet contractual commitments. The money crisis is characterized by a collapse in commodity prices and a ‘fleeing’ to the money-form. When financial intermediation is fully integrated in the model, the money crisis includes falling prices for financial assets, rising interest rates, increasing inability to obtain credit at any price, and a flight from all risky assets, a flight that itself causes assets previously thought of as safe to become classified as risky.

These are the *formal possibilities* of crisis. The form mentioned first [SCP-through-MMC] is possible without the latter—that is to say, crises are possible without credit, without money functioning as a means of payment. But the second form [SCP-through-MMP] is not possible *without the first*—that is to say, without the

separation between purchase and sale. But in the latter case, the crisis occurs not only because the commodity is unsaleable, but because it is not saleable *within a particular period of time*, and the crisis arises and derives its character not only from the *unsaleability* of the commodity, but from the *non-fulfillment of a whole series of payments* which depend on the sale of this particular commodity within this particular period of time. This is the *characteristic form of money crisis*.

If the *crisis* appears, therefore, because purchase and sale become separated, it becomes a *money crisis*, as soon as money has developed as *means of payment*, and this *second form* of crisis follows as a matter of course, when the *first occurs*.<sup>35</sup>

It is impossible to miss in these quotations the crucial role the contract economy, or MMP, plays in Marx’s crisis theory. Price instability, disappointed expectations and random loss of wealth are possible in SCP-through-MMC, but it is the contractual rigidities of MMP that convert this simple anarchy into a serious potential for economic collapse.

Marx makes the same point about the potential precariousness of the contract matrix using a somewhat more concrete example involving a set of producers whose fortunes are bound together by trade credit relations arising from an integrated structure of production. He concludes his discussion of this example as follows:

The flax grower has drawn on the spinner, the machine manufacturer on the weaver and the spinner. The spinner cannot pay because the weaver cannot pay, neither of them pay the machine manufacturer, and the latter does not pay the iron, timber, or coal supplier. And all of these in turn, as they cannot realize the value of their commodities, cannot replace that portion of value which is to replace their constant capital. Thus the general crisis comes into being. This is nothing other than the *possibility of crisis* described when dealing with money as a means of payment. . .<sup>36</sup>

Historically there is no doubt that the rigidification of the economic system through a pervasive, complex, interlocking system of contractual obligations is an accomplishment of the capitalist mode of production. But in Marx’s method, the general crisis or money crisis is an abstract theoretical attribute of commodity-exchange-in-general, or of SCP, and is thus theorized prior to the analysis of capitalist social relations.

Thus, the step Marx takes when he introduces MMP into SCP is a major step in the development of his crisis theory. Circulation now takes more time and the agents become embedded in more extensive relations of interdependence due to

the simple fact that at least two sales are required to complete the circulation of a commodity. Of greater significance, contracts, especially credit contracts, link reproduction cycles together, making reproduction in one period depend on reproduction cycles that took place many periods past: *reproduction is now hostage to its own history*. Time takes on a qualitatively greater significance in the analysis and the concept of increasing fragility or rigidity in the reproduction process now plays a potentially dominating role in crisis theory. For the first time Marx's analysis becomes inherently and fundamentally historical: history and historic time step centerstage into the spot-light of Marx's crisis theory.

We conclude this section by returning to a fundamental point raised earlier. To comprehend Marx's approach to crisis theory, it is essential to understand his abstract forms of crisis in SCP analysis and the role of money and credit therein. But it is just as important to bear in mind that, for Marx, an abstract form has no content, crisis potential is not the same as crisis cause, and a crisis framework is not yet a theory of crisis. To put content in the abstract forms of crisis, to make a crisis theory out of crisis potential, it is necessary to integrate an analysis of the crisis tendencies of capitalist production relations with the abstract forms of crisis of SCP. Thus, the next step in the development of a theory of capitalist crisis is an analysis of the crisis tendencies of capitalist production relations and an examination of the unity and contradiction of the capitalist reproduction process as a whole, integrating the spheres of production and circulation.

#### IV. Moving From Simple Commodity Production to Capitalism

Marx constructs a four step argument to move from the abstract forms of crisis in SCP analysis to a theory of capitalist crisis. First, he argues that his analysis of the crisis potential of SCP must be incorporated in capitalist crisis theory because capitalism is a commodity exchange mode of production. Second, he argues that the historical development of a complex contract-credit system and the rise of capitalism are simultaneous and symbiotic. Third, he analyzes those aspects of capitalist production relations that cause the rate of profit to alternately rise and fall over time, creating the unstable growth patterns characteristic of capitalist economies. Fourth, he integrates these tendencies or laws of capitalist production relations into the analysis of abstract crisis forms to generate a unified theory of the capitalist reproduction process. We deal briefly with the first three of these steps in this section; the last step is analyzed in section V.

#### IV. a. The Theory of the Capitalist Mode of Production Incorporates and Transforms the Theory of SCP

Capitalism is a commodity exchange or market-organized mode of production: "The circulation of commodities is the starting-point of capital."<sup>37</sup> Indeed, Marx stresses the fact that capitalism is the only fully-developed or advanced form of commodity exchange that ever existed. Therefore, Marx's analysis of the complete model of SCP—including his theory of its crisis potential—is applicable to capitalism and must, as a model of capitalist commodity circulation, be a constituent element of the theory of capitalism's laws of motion. He is perfectly clear about this:

The contradictions inherent in the circulation of commodities, which are further developed in the circulation of money—and thus, also, the possibilities of crisis—reproduce themselves, automatically, in capital, since developed circulation of commodities and of money, in fact, only takes place on the basis of capital.<sup>38</sup>

In analyzing capitalist crisis, he tells us:

To begin with therefore, in considering the *reproduction process* of capital (which coincides with its circulation) it is necessary to prove that the above forms [SCP-through-MMC and SCP-through-MMC] are simply repeated, or rather, that only here they receive a content, a basis on which to manifest themselves.<sup>39</sup>

If some variant of the complete SCP model is applicable to many different social formations, what is it that distinguishes or differentiates them? Marx's answer to this question is self-evident: their relations of production. Until we have theorized the production relations of a particular mode of production and integrated this theory with the SCP model, we cannot develop an adequate analysis of its laws of motion.

The production and circulation of commodities are however phenomena which are to be found in the most diverse modes of production, even if they vary in extent and importance. If we are only familiar with the abstract categories of circulation, we cannot know anything of their *diffentia specifica*, and we cannot therefore pronounce judgement on them.<sup>40</sup>

So although it was "necessary to describe the circulation or reproduction process before dealing with the already existing capital—*capital and profit*. . ."<sup>41</sup>, Marx must now move on to his analysis of capitalism's



differentia specifica, its relations of production, in order to establish capitalism's laws of production and investigate the distinguishing characteristics of capitalist commodity circulation.

But now the further development of the potential crisis has to be traced—the real crisis can be educed from the real movement of capitalist production, competition and credit—in so far as crisis arises out of the special aspects of capital which are *peculiar* to it as capital, and not merely comprised in its existence as commodity and money.<sup>42</sup>

#### IV. b. Capitalism Develops and Perfects the Contract-Credit System

The second point involves the articulation between the theory of circulation and the theory of production. Though it is beyond the scope of this paper to undertake an historical analysis of the development of financial intermediation, it is relevant to point out that the complex contract-credit system as we know it was created as part of the process of the evolution of capitalism. The development of capitalist social relations proceeded historically alongside the evolution of the contract-credit system in a symbiotic relation with it. Thus, although the abstract form of SCP including MMP belongs to Marx's theory of commodity exchange, it is capitalism that deepened, widened and intensified contract-credit relations.

Marx makes this point in many occasions. "Credit," he tells us, "is both the result and the condition of capitalist production . . ."<sup>43</sup> The "development of the credit-system . . . necessarily runs parallel with the development of large-scale industry and capitalist production. . ."<sup>44</sup> And again: Credit "as an essential, developed relation of production appears *historically* only in circulation based on capital or on wage labour."<sup>45</sup>

Marx emphasizes the fact that capitalist accumulation not only increases the volume of commercial credit, it widens and deepens the credit matrix as well because as it raises the scale of production, it simultaneously lengthens the time of the production cycle, widens the span of the market geographically and makes credit inherently more speculative:

It is clear, however, that with the development of labour productivity and hence of production on a large scale [in capitalism], (1) markets expand and become further removed from the point of production, (2) credit *must* consequently be prolonged, and (3) as a result, the speculative element *must* come more and more to dominate transactions. Large-scale production for distant markets casts the entire product into the arms of commerce; but it is

impossible for the nation's capital to double, so that commerce would purchase the entire national product with its own capital before selling it again. Credit is thus indispensable here, a *credit* that *grows in volume* with the increasing value of production and *grows in duration* with the increasing distance of markets. A reciprocal effect takes place here. The development of the production process expands credit, while credit in turn leads to an expansion of industrial and commercial operations.<sup>46</sup>

The analysis of the credit-accumulation nexus that Marx describes here is clearly dialectical in that credit facilitates and even accelerates reproduction—"credit is thus indispensable here"—at the same time that it obviously increases the vulnerability or fragility of the entire process. The consequence of a disruption in the pace of accumulation on the one hand, or of an increase in the cost or decrease in the availability of credit on the other is obvious: crisis! The laws of development of capitalism raise the crisis potential of the contract-credit system substantially beyond that attained by the SCP-through-MMP form.

#### IV. c. Capitalist Production Relations, Crisis, and the Multicausal Tendency of the Rate of Profit to Fall

The rate of profit is the key variable in the Marxian theory of the dynamics of accumulation and crisis in capitalism. The traditional Marxist literature analyzes capitalist production relations in order to establish laws or tendencies governing the behavior of the profit rate. Its concerns are symmetric in that it both investigates the capacity of the capitalist economy to endogenously regenerate a high rate of profit and a resultant high rate of growth in the aftermath of an economic downturn, and studies endogenously generated impediments to sustained accumulation. Crisis theory proper, our major concern in this paper, concentrates on the second of these issues; it analyzes systemic forces in the capitalist accumulation process that tend to lower the profit rate and eventually transform growth into crisis and collapse.

It is not our purpose here either to review the crisis theory literature or to critically evaluate it. Rather, we wish only to establish its appropriate location in Marx's theoretical analyses of capitalist crisis. The major issues debated in this literature—disproportionality between departments I and II, underconsumption problems, the decline in the rate of exploitation (and thus *ceteris paribus*, in the rate of profit) associated with a shrinking industrial reserve army of unemployed, and the tendency of the rate of profit to fall based on the tendency of the organic composition of capital to rise—are familiar to anyone with a passing knowledge of Marxian theory. The logical position they occupy in

Marx's theoretical structure, however, is not necessarily familiar, even to sophisticated Marxists.

With respect to crisis theory and the central concern of this paper, there are two especially significant results of Marx's analysis of capitalist production relations (and of his analysis of those aspects of the unified system of production and circulation—such as interest-bearing capital and financial intermediation—that can be theorized only after the analysis of production has taken place). First, it enriches the previously theorized crisis potential of commodity exchange: *Volumes Two and Three of Capital* deal with the transformation of the theory of simple commodity circulation into the richer, more complex theory of capitalist commodity circulation. Second, it generates a series of complementary foundations underpinning a tendency for the rate of profit to fall as accumulation proceeds over time. Whatever the source of this tendency in any particular era of growth—be it a declining reserve army, a rising organic composition of capital and/or a problem of underconsumption—the important point is that accumulation, which requires some historically specific minimum rate of profit to sustain itself, eventually causes the rate of profit to decline, thus destroying its most important condition of existence. The tendency for accumulation to eventually lower the profit rate is the crucial link that ties Marx's analysis of capitalist production relations to the previously theorized model of the abstract forms of crisis in commodity exchange (as augmented and transformed by capitalist development), making it possible to construct a unified theory of capitalist crisis. The major shortcoming of the traditional crisis theory literature is its failure to comprehend the existence and significance of the theoretical articulation of the laws and tendencies of the rate of profit deduced from the sphere of production with Marx's analysis of monetary and financial phenomena conducted both earlier and later in *Capital*.

### V. The Unity of Circulation and Production

Perhaps the simplest way to summarize Marx's view of the role of financial phenomena in the accumulation process is as follows: credit and, to a lesser extent, nonfinancial contracts are important and often dominating accelerators and destabilizers of accumulation. The contract-credit system feeds the accumulation process in the upswing, driving it at a pace it could not possibly otherwise attain, while it simultaneously gives to accumulation the fragile, rigid character we have stressed: it creates what Marx calls an "over-sensitivity" in the process. Adverse nonfinancial developments which would have caused only a mild and temporary hesitation in an ongoing expansion in the absence of a fragile financial environment can generate a crisis and collapse in its presence. Moreover, semiautonomous disturbances in the financial sector can themselves initiate a disruption of accumulation, creating a crisis. And an

overextended, over-sensitive, contract-credit system can turn what might have been a mild downturn into a panic and collapse of epic proportions. A complete integration of the spheres of circulation and production in the theory of accumulation and crisis would have to consider all four effects of the contract-credit system: (1) the overextension of the expansion; (2) the increasing vulnerability of the expansion to adverse financial or nonfinancial developments; (3) the codetermination of the timing of the crisis; and, (4) the deepening and widening of the contraction.

A full treatment of Marx's analysis of the relationship between commercial credit and financial intermediation and capitalism's laws of motion in either the short or long-run is well beyond the scope of this paper.<sup>47</sup> However, we would like to highlight some conclusions of that analysis which reinforce our main theme concerning the crucial importance of money, contracts, credit and financial intermediation in Marx's crisis theory.

### V. a. Overheating the Expansion

We stated that Marx's theory of accumulation and crisis centers on the rate of profit: in fact, there are two different profit rate variables in Marx's macro-theory. The gross rate of profit is the ratio of interest plus rent plus the profit of industrial and commercial enterprises to invested capital. The net rate of profit is the ratio of industrial and commercial profits after the deduction of interest and rent—what Marx called profit of enterprise—to invested capital.

The gross rate of profit is important because, on the assumption that savings come from property income, it is a crude index of the maximum potential rate of capital accumulation. Net profit is important for two reasons. First, it is the source of internal funding for investment: corporate cash flow consists of profit of enterprise minus dividend payout (plus depreciation allowance if a tax system is relevant). Moreover, a satisfactory net rate of profit is an essential precondition for obtaining external funding on reasonable terms. Second, the net rate of profit that industrial capitalists *expect* to prevail in the intermediate future is the key determinant of their demand for investment goods or their desire to accumulate capital. And the net rate of profit that financial capitalists *expect* industrial capital to yield in the intermediate future is a determinant of their willingness to lend money because it measures the cushion of security that they think will be available to protect their financial investment.

Since expectations of future profit rates will, at least in 'normal' times, be determined by the path taken by the actual rate of profit in the relevant past up through the current period, the realized gross and net rate of profit are the prime movers of capital accumulation. Attractive profit rates induce a vigorous demand for investment at the same time that they stimulate the funding needed to finance the investment; disappointing profit rate developments produce the

opposite results. In Marx's accumulation theory, in other words, the profit rate is the bottom line.

An expansion, therefore, requires the existence of an "attractive" rate of profit. Moreover, a profit rate considered to be attractive by the capitalist class of any particular historical period will, if maintained for some period of time, generate confident expectations that satisfactorily profitable conditions will continue to prevail for the foreseeable future. This confidence, in turn, will lead industrial capitalists not only to reinvest retained earnings but to seek external investment funding as well. The same climate of confidence will induce financial intermediaries to expand credit aggressively; credit will be made available at moderate rates of interest. Vigorous capital investment will initially increase profits; in turn, sustained high profits will serve to increase confidence and improve the business climate.<sup>48</sup> Assessments of the risk involved in real or financial investment will diminish with each profitable period that passes, leading to the use of greater debt leverage all around. Businessmen in all sectors will want to get their piece of the profitable action or will be forced into aggressive expansion by competitors less conservative than themselves. Competition for markets, raw material supplies and credit reinforces the forward momentum of the expansion.

Trade credit will be readily granted to buyers and readily taken from sellers. The desire to take maximum advantage of the high profits of the period and to reduce the risk of losing supplies or markets to competitors will stimulate firms to make long-term contracts with those from whom they buy and to whom they sell. Capital investment will be debt-funded to an ever-increasing extent: enterprises will seek additional debt as long as the interest rate remains sufficiently below the expected gross rate of profit. In the rose-colored perspective of the expansion, not only do profit expectations become more buoyant, the required margin of safety between the expected gross profit rate and the rate of interest narrows as well.<sup>49</sup>

In short, what might have been a moderate expansion in the absence of cheap and available credit may become a runaway boom when superheated by the credit system. Of course, *it must be emphasized that in Marx's theory the high profit of the expansion is attainable only because the underlying production relations make it possible.* But it is the credit and financial system that accelerates the forward motion of the system, thereby helping transform boom-induced confidence into euphoria. As Marx wrote of the credit-fueled boom of 1844-46 in England:

The enticingly high profits had led to operations more extensive than the liquid resources available could justify. But the credit was there, easy to obtain and cheap at that. . . . All domestic share prices stood higher than ever before. Why let the splendid opportunity pass? Why not get into the swing of it?<sup>50</sup>

Why not indeed! It is the capitalist credit system according to Marx that is "the principal lever of overproduction and excessive speculation in commerce."<sup>51</sup> "Banking and credit," he tells us "become the most powerful means for driving capitalist production beyond its own barriers and one of the most effective vehicles for crisis and swindling."<sup>52</sup>

#### V. b. *The Crisis and Contraction*

The over-heated expansion erupts into crisis when two conditions hold simultaneously. First, combining his analysis of the abstract forms of crisis associated with commodity-exchange with the analysis of the role of credit and financial intermediation in capitalist accumulation, Marx theorizes the increasing fragility, vulnerability or sensitivity of the contract-credit system in the mature expansion. As the expansion overheats the ability to fulfill contractual obligations will be increasingly threatened by any significant decline in the gross rate of profit. Second, Marx's analysis of the laws of motion of capitalist production relations, conducted under the conditional assumption that there are no impediments to accumulation in the sphere of circulation, generates multicausal tendencies of the gross rate of profit to fall at some point in every expansion. The integration of these two phenomena is Marx's theory of crisis. Neither one theorized in isolation from the other adequately reflects Marx's understanding of the unity and contradiction of circulation and production in capitalism.

We have already presented Marx's analysis of the way in which accumulation creates a fragile contract-credit system whose rupture in any key sector can lead to systemic crisis. All that remains is to tie that analysis to the gross rate of profit, the variable around which accumulation theory is constructed, and to integrate the interest rate on loan-capital into the crisis picture.

The critical step in this regard is the recognition that *the trend or average gross rate of profit in any historical period is the center of gravity around which the contract-credit system develops.* On the one hand, the average rate of profit is a codeterminant of the structure of relative prices which, in turn, influence the structure of contractual relations. More important, as accumulation proceeds the trend gross profit rate acts as a magnet attracting the rate of interest. In the early expansion the gross rate of profit rises while the interest rate remains stable, opening up a gap between them which fuels the investment boom. As the gross profit rate peaks, however, the interest rate rises to narrow that gap; the interest rate is both pulled-up by the strong demand for loanable funds by businesses lusting to take maximum advantage of the high profits of the period, and pushed up by the increasing illiquidity of the economy. As the expansion matures, the interest rate creeps up on the gross profit rate. In other words, the net rate of profit rises dramatically in the early-to-mid-expansion and declines thereafter.

In the following passage Marx describes the erosion of the net profit rate by the interest rate in the course of the expansion:

If the reproduction process has reached the flourishing stage that preceeds that of over-exertion, commercial credit undergoes a very great expansion, this in turn actually forming the 'healthy' basis for a steady flow of returns and an expansion of production. In this situation, the rate of interest is still low, even it has risen above its minimum . . . The ease and regularity of returns, combined with an expanded commercial credit, ensures the supply of loan capital despite the increased demand and prevents the interest level from rising. . . . Added to this is a great expansion of fixed capital in all forms and the opening of large numbers of new and far-reaching undertakings. Interest now rises to its average level. It reaches its maximum again as soon as the new crisis breaks out, credit suddenly dries up, payments congeal, the reproduction process is paralyzed and . . . there is an almost absolute lack of loan capital alongside a surplus of unoccupied industrial capital.<sup>53</sup>

Thus, a web of financial and other contractual commitments will be woven ever tighter around the gross profit rate as long as it does not fall, or as long as reductions in it are seen as temporary deviations around a stable or rising long-term trend. Of central importance, the margin of safety or margin of error separating gross profit flows from required interest payments and principal repayments tends to decline as the expansion matures. "[I]t is precisely the development of the credit and banking system which . . . seeks to press all money capital into the service of production . . . that makes the entire [economic] organism *oversensitive*."<sup>54</sup>

With reproduction in this "oversensitive" or fragile condition, either of two developments can trigger a crisis and subsequent collapse. On the one hand, a semiautonomous monetary and financial crisis can produce a sharp drop in the availability of credit and an equally sharp rise in its cost. This can be enough to rupture an accumulation process so dependent upon credit. In *Volume One* of *Capital* Engels argues that a financial crisis "may appear independently of [industrial and commercial crises] and only affects industry and commerce by its back wash. The pivot of these crises is to be found in money capital, and their immediate sphere of impact is therefore banking, the stock exchange and finance."<sup>55</sup>

In other words, the speculation, stock market euphoria, outright swindling and gernal casino atmosphere of the overheated boom can create a financial structure vulnerable to the exposure of fraud, the disappointment of unfulfillable expectations and the collapse of Ponzi-like financial pyramiding even in the absence of a prior collapse in the industrial and commercial sectors. Marx

makes a similar argument:

In the period of over production and swindling, the productive forces are stretched to their limit.

. . .  
In a system of production where the entire interconnection of reproduction rests on credit, a crisis must evidently break out if credit is suddenly withdrawn and only cash payment is accepted, in the form of a violent scramble for means of payment.<sup>56</sup>

On the other hand, with the contract-credit system in a fragile condition any substantial decline in the gross rate of profit will bring on a crisis. It is at this point of the analysis that the problems in the sphere of production emphasized in the traditional crisis theory become most important. When one or more of the various tendencies for the gross rate of profit to fall theorized by Marx finally takes hold, the contract-credit system may rupture. The tighter the contractual web, the quicker the rupture. The system of interlocking commitments may be more or less sensitive, more or less robust, more or less fragile; the gross profit rate therefore has some variable degree of downward flexibility it can experience before contract-credit structures are threatened. *But the condition of the contract-credit system establishes a floor below which the gross profit rate cannot fall in any particular period without triggering a general crisis*; that is, a commercial-industrial crisis accompanied by a monetary and financial crisis.

Should the gross profit rate fall too fast or too far, contractual obligations cannot be fulfilled, the credit system comes under duress, confidence shatters, interest rates soar, risk-aversion rises dramatically and the forced sale of real and financial assets caused by a desperate effort to obtain money as a means of payment sends commodity and financial asset prices into a tailspin. *The crisis is triggered or caused by the union of a falling rate of profit and an oversensitive contract-credit system.*

The following quotation from Marx highlights the way in which monetary and financial developments during the crisis contribute to the economy's collapse:

In times of pressure, when credit contracts or dries up altogether, money suddenly confronts commodities absolutely as the only means of payment and the true existence of value. Hence the general devaluation of commodities and the difficulty or even impossibility of transforming them into money. . . The value of commodities is thus sacrificed in order to ensure the fantastic and autonomous existence of this value in money . . . This is why millions' worth of commodities have to be sacrificed for a few millions in money. This is unavoidable in capitalist production and



forms one of its particular charms. In former modes of production, this does not happen, because given the narrow basis on which these move, neither credit nor credit money is able to develop. As long as the *social* character of labour appears as the *monetary existence* of the commodity and hence as a *thing* outside actual production, monetary crises, independent of real crises or as an intensification of them, are unavoidable.<sup>57</sup>

At the end of his treatment of the "Law of the Tendency of the Rate of Profit to Fall" in Part Three of *Volume Three* of *Capital* Marx links the rupture of the contract-credit network directly to the falling profit rate in forceful, colorful language. When the profit rate falls:

... since certain price relationships are assumed in the reproduction process, and govern it, this process is thrown into stagnation and confusion by the general fall in prices. This disturbance and stagnation paralyzes the function of money as a means of payment, which is given along with the development of capital and depends on . . . presupposed price relations. The chain of payment obligations at specific dates is broken in a hundred places, and this is still further intensified by an accompanying breakdown of the credit system, which had developed alongside capital. All this therefore leads to violent and acute crises, sudden forcible devaluations, an actual stagnation and disruption in the reproduction process and hence to an actual decline in reproduction.<sup>58</sup>

We cannot present here a complete discussion of the various ways in which a fragile contract-credit system can generate a crisis in the face of a falling profit rate. However, it should be clear that a massive wave of bankruptcies need not take place for a downturn to occur. The mere existence of the potential for financial crisis will induce risk-averse business behavior as soon as the *threat* of bankruptcy makes itself clear. The fall in the gross profit rate will shatter the rosy expectations of industrial and financial capitalist; their confidence will turn into caution or perhaps even fear. Interest rates, as we have seen, will continue to rise even as the gross profit rate falls due to distress borrowing by those firms whose actual net profit rate has turned negative, and to the forced sale of financial assets by those individuals and firms that unexpectedly need cash to meet contractual commitments they had thought they could finance from projected income-flows that failed to materialize. The commitment of future expected cash-flows required by long-term investment projects will now make them appear too risky to undertake. Real investment *will* decline; it could collapse.

The decline of investment will drag overall economic activity down with it;

the gross rate of profit will fall even further. The drive for liquidity or safety will accelerate. And so on. Although the ensuing economic downturn may actually ruin or bankrupt only a modest subset of the most exposed firms, it will be enough to make corporate and bank executives cautious, if not frightened: stagnation follows.<sup>59</sup>

On the other hand, *if* a major fall in the gross profit rate occurs within a very complex, highly rigid, very fragile matrix of contractual commitments built up over an extended period of time, a major economic collapse, general or universal crisis, or massive depression is likely to result. A major monetary and financial crisis may be the sine qua non of a "great" depression. *The condition of the contract-credit structure is a prime codeterminant of the depth and duration of the economic downturn in Marx's crisis theory. It is the severity of the decline in the gross profit rate in combination with the condition of the contract matrix that dictates the dynamics of the crisis, downturn and stagnation.*

## Vi. Conclusion

In summary, we have argued that the theory of money, contracts, commercial credit and financial intermediation is of central importance in Marx's theory of accumulation and crisis; it is neither subsidiary to, a 'mere reflection' of, or less important than the theory of production proper. As we have seen, the contract-credit system facilitates and accelerates accumulation, pushing it far beyond the limits it could otherwise attain at the same time that it makes the accumulation process fragile, unable to withstand a substantial decline in the gross rate of profit. It codetermines the timing of the crisis as well as the depth and duration of the depression. Here is Marx on the overriding significance of the credit and banking system for accumulation and crisis:

If the credit system appears as the principal lever of over production and excessive speculation in commerce, this is simply because the reproduction process, which is elastic by nature, is now forced to its most extreme limit. . . This only goes to show how the valorization of capital founded on the antithetical character of capitalist production permits actual free development only up to a certain point, which is constantly broken through by the credit system. The credit system hence accelerates the material development of the productive forces and the creation of the world market. . . At the same time, credit accelerates the violent outbreaks of this contradiction, crises, and with these the dissolution of the old mode of production.<sup>60</sup>

Several critics of Marx's crisis theory have argued that, paradoxically, it has no theory of the crisis itself. They claim that Marx presented no answer to such questions as: Why doesn't the decline in the profit rate cause a lower rate of balanced growth rather than a crisis?; Where is the analytical mechanism that connects a decline in the profit rate to a recession or depression?

The traditional crisis theory literature either fails to answer these questions or gives a different answer than the one Marx gave. The reason for this, we believe, is that this literature does not understand Marx's methodology as we have explained it in this paper. Marx, as we have seen, begins *not* with production, but with circulation or exchange. Only after an extensive discussion of the crisis potential of the SCP-through-MMP form has been conducted are the crisis tendencies of capitalist production relations analyzed: and these tendencies are embedded in the abstract crisis form of SCP-through-MMP as transformed by capitalist production relations. We know before entering an analysis of the sphere of production that "certain price relationships are assumed in the reproduction process, and govern it." We know that money as a means of payment—the contract-credit system—"which is given along with the development of capital . . . depends on those presupposed price relationships." If the presupposed price relationships unravel, if the average gross profit rate declines, the "chain of payment obligations at specific dates is broken in a hundred places, and this is still further intensified by an accompanying breakdown of the credit system . . . All this leads to violent and acute crises . . . and hence an actual decline in reproduction."

This is Marx's answer to the question of why a decline in the rate of profit leads to a crisis rather than a mere slowing down in the rate of accumulation. The integration of his analysis of capitalist commodity circulation, of the contract-credit system, with traditional theories of the tendency of the rate of profit to decline at some point in every expansion changes the essential condition for crisis-avoidance. From the analysis of production relations alone, a non-negative gross profit rate may be required, but with the production sector integrated with the contract-credit system, the economy must maintain the "normal," "usual," or expected profit rate to avert a crisis. This is the language Marx himself uses:

In [simple] reproduction, just as in the accumulation of capital, it is not only a question of replacing *the same* quantity of use-values of which capital consists, on the former scale or on an enlarged scale (in the case of accumulation), but of replacing the *value* of the capital advanced along with the *usual* rate of profit (surplus value).<sup>61</sup>

Similarly, in the section of Chapter 17 entitled "On the Forms of Crisis" Marx states:

The rate of profit falls. . . . The fixed charges—interest, rent,—which were based on the anticipation of a *constant* rate of profit and exploitation of labour, remain the same and in part *cannot be paid*. Hence *crisis*. Crisis of labour and crisis of capital. This is therefore a disturbance in the reproduction process. . . .<sup>62</sup>

Here, then, is the integration of the crisis potential of capitalist commodity-exchange and the crisis tendencies of capitalist production relations. The contract-credit system, through a multiplicity of transmission mechanisms that we have only touched on in this paper can accelerate accumulation and extend its life, but it also creates a crisis trigger that detonates when accumulation falters. Marx's analysis of the sphere of production explains why the profit rate must eventually fall, but it is his analysis of the abstract form of crisis, SCP-through-MMP, that explains why and when a falling-but-positive profit rate generates a crisis. On the one hand, the abstract form has no content; it does not explain why a crisis must occur. On the other hand, a tendency for the rate of profit to decline does not explain why and when a crisis will erupt. Together, as the contradictory unity of production and circulation, they provide both form and content for crisis theory.

### Notes

1. It is interesting to note that the work of Keynes and of a number of economists substantially influenced by him stands in sharp contrast to Marxian theories of accumulation and crisis on this point. Whereas the Marxian tradition has an underdeveloped theory of money and finance but a rich literature devoted to the sphere of production, the Keynesians have produced interesting and important work on monetary and financial aspects of capitalist instability while almost totally neglecting production relations, the labor process, and the class structure. The writings of Hyman Minsky are especially important in this regard. See for example, Minsky, *John Maynard Keynes*, New York: Columbia University Press, 1975, and *Can It Happen Again: Essays on Instability and Crisis*, Armonk, New York: M.E. Sharpe, 1982. Charles Kindleberger's work is also relevant here: Kindleberger, *The World In Depression: 1929-39*, Berkeley and Los Angeles: University of California Press, 1973, Kindleberger, *Manias, Panics and Crashes*, New York: Basic Books, 1978, and Kindleberger and J.P. Laffargue, editors, *Financial Crisis: Theory, History and Policy*, Cambridge: Cambridge University Press, 1982.
2. The following "Reviews of the Month" in *Monthly Review* represent but a sample of the articles on the state of the economy by Magdoff and/or Sweezy in which

money and finance play an important role: "The Long-Run Decline in Liquidity" (September 1970, 1-17); "Keynesian Chickens Come Home to Roost" (April 1974, 1-12); "Banks, Skating on Thin Ice" (February 1975, 1-21); "Capital Shortage: Fact or Fancy?" (April 1976, 1-19); "Keynesianism: Illusions and Delusions" (April 1977, 1-12); "Emerging Currency and Trade Wars" (February 1978, 1-7); "Debt and the Business Cycle" (June 1978, 1-11); The U.S. Dollar, Petrodollars and U.S. Imperialism" (January 1979, 1-13); "Inflation Without End?" (November 1979, 1-10); "The Deepening Crisis of U.S. Capitalism" (October 1981, 1-16); "International Economic Distress and the Third World" (April 1982, 1-13); and "Full Recovery or Stagnation?" (September 1983, 1-12).

3. See, for example, the survey article on crisis theory by Erik Olin Wright, "Alternative Perspectives in the Marxist Theory of Accumulation and Crisis," *The Insurgent Sociologist*, Volume 6, number 1, (Fall, 1975), pp. 5-40. In this article Wright argues that "monetary instability, credit imbalances, and other problems strictly in the sphere of circulation . . . will not be discussed in this paper since, while such problems are important, there is a theoretical priority to analyzing the impediments to accumulation in terms of contradictions in the sphere of production" [pp. 12-13].
4. In this paper we will generally follow tradition and refer to the model of simple commodity circulation or commodity exchange developed in Part One of *Volume One of Capital* as "simple commodity production" or (SCP). However, it should be understood that in Part One Marx deliberately abstracts from the specifics of production relations precisely in order to focus on those characteristics of capitalism that derive from the fact that it is organized through commodity circulation rather than by deliberate planning. Thus, while it would be appropriate to label this model "simple commodity circulation" (or SCC) rather than SCP, the traditional usage will be maintained throughout the paper.
5. Ernest Mandel, "Introduction" to Karl Marx, *Capital I* (Translated by Ben Fowkes), New York: Random House (Vintage Books Edition), 1977, p. 32.
6. Part one of *Volume One of Capital* does not contain a detailed analysis of production; Marx merely asserts that the law of value guides the economy. Indeed, he refers in passing to the fact that "as yet" there is a "lack of clarity in the concept of value itself," *Ibid.*, p. 199.
7. We do not mean to imply that Marx developed a complete seamless theory of accumulation and crisis: he did not. The point here is that his basic approach itself is fundamentally flawed unless viewed as an attempt to analyze the laws of motion of capitalism as the contradictory unity of its spheres of circulation and production.
8. Marx also distinguishes between the nature or quality of crisis in SCP and in capitalism by referring to the 'potential' for or 'possibility' of crisis in the former and the 'inevitability' of crisis in the latter. Our distinction between the crisis 'potential' in SCP and the crisis 'tendencies' of capitalist production relations reflects our attempt to capture Marx's distinction between the two while avoiding the ambiguity associated with the concept of "inevitability."
9. After the body of this paper was completed an interesting and informative essay by Peter Kenway entitled "Marx, Keynes and the Possibility of Crises" [*Cambridge Journal of Economics*, Vol. 4, 1980, 23-36] was called to my attention. Drawing upon the material of Chapter 17 of *Theories of Surplus Value*, Kenway discusses the

importance in Marx's crisis theory of the distinction between the analysis of the 'possibility' of crisis in SCP and what he calls "actuality theory" or the analysis of capitalist crisis. To some extent, then, the papers overlap. However, our interpretations of Chapter 17 are different and there are many important topics analyzed in this paper (for example: the organization of crisis theory in *Capital*; the relation between the different abstract forms of crisis in SCP and the various functions of money; and the importance of contracts, credit and financial intermediation in Marx's crisis theory) that are not addressed by Kenway.

10. Karl Marx, *Theories of Surplus Value: Volume Two*, Moscow: Progress Publishers, 1968, pp. 508-509.
11. Marx, *Capital I*, p. 207.
12. Marx, *Theories of Surplus Value: Volume Two*, p. 502.
13. Marx, *Capital I*, p. 209.
14. *Ibid.*, p. 217. It should be noted that Marx uses the term "form" in two closely related yet distinct ways. First, he refers to different value-forms. Commodity, money and financial asset are all forms through which value (or embodied labor time) may pass in the reproduction or circulation process. Second, this paper stresses the concept of abstract forms of crisis. Here, the model of commodity circulation changes its form or structure as the various functions of money are sequentially incorporated within it.
15. Marx, *Theories of Surplus Value: Volume Two*, pp. 504-505.
16. Marx *Capital I*, p. 188.
17. *Ibid.*, pp. 189-190.
18. *Ibid.*, p. 196.
19. Marx, *Theories of Surplus Value: Volume Two*, p. 509.
20. *Ibid.*, p. 509.
21. *Ibid.*, p. 515.
22. World money, Marx tells us, "serves as the universal means of payment, as the universal means of purchase, and as the absolute social materialization of wealth as such (universal wealth). Its predominant function is as means of payment in the settling of international balances." [*Capital I*, p. 242] The integration of the function of money as world money into the theory of capitalist crisis constitutes an essential step in its development. However, this step is well beyond the scope of this paper. Needless to say, its integration would reinforce our main argument concerning the importance of monetary and financial phenomena in Marx's crisis theory.
23. *Ibid.*, p. 510.
24. Karl Marx *A Contribution to the Critique of Political Economy*, Moscow: Progress Publishers, 1970, p. 142.
25. *Ibid.*, p. 140.
26. Marx, *Capital I*, p. 233.
27. *Ibid.*, p. 234.
28. *Ibid.*, p. 234.
29. *Ibid.*, p. 236.
30. The term "financial fragility" is borrowed from Minsky's elaboration of his financial instability hypothesis.
31. Our discussion to this point stresses the vulnerability or crisis-prone nature of an

economy with a complex contract-credit network. It should be understood, however, that the introduction of MMP, and, later, financial intermediation has both positive and negative effects on accumulation. Contracts and credit help resolve or eliminate impediments to realization and circulation of commodities even as they heighten the crisis potential of the system. The impressive growth of the capitalist world system and of its constituent national economies could not have occurred in the absence of the development of complex financial intermediation: financial intermediation is both a necessary condition for the successful reproduction of the capitalist economy as well as a major impediment to it. In other words, it has a contradictory relation to accumulation.

32. Marx, *Theories of Surplus Value: Volume Two*, pp. 513-514.
33. *Ibid.*, p. 495.
34. *Ibid.*, p. 514.
35. *Ibid.*, p. 514.
36. *Ibid.*, p. 511.
37. Marx *Capital 1*, p. 248.
38. Marx, *Theories of Surplus Value: Volume 2*, p. 512.
39. *Ibid.*, p. 510.
40. Marx *Capital 1*, p. 209.
41. Marx, *Theories of Surplus Value: Volume Two*, p. 513.
42. *Ibid.*, p. 513.
43. *Ibid.*, p. 211.
44. Marx, *Capital 2*, (Translated by David Fernbach) London: New Left Books, 1978, p. 261.
45. Marx, *Grundrisse*, (Translated by Martin Nicolaus) New York: Random House (Vintage Books Edition) 1973, p. 535.
46. Marx, *Capital 3*, (Translated by David Fernbach) New York: Random House (Vintage Books Edition) 1981, p. 612. Emphasis added.
47. This discussion will deal with the general categories of accumulation, crisis and collapse; we will abstract to the maximum feasible extent from the important distinction between business cycles, on the one hand, and long-swings, structural or institutional change and the periodization of the history of capitalist social formations on the other. We merely note that the study of the institutional structure of (domestic and international) financial intermediation must be an integral component of a Marxian theory of structural change in capitalism. See, for example, Marx's emphasis on financial intermediation and the centralization of capital in his discussion of accumulation.
48. We abstract here from an analysis of the various ways in which a period of recession or depression helps to create conditions in the sphere of production and the sphere of circulation that contribute to the rising rate of profit in the subsequent expansion. Our discussion in the text takes for granted the appropriate cyclical behavior of non-financial determinants of the profit rate.
49. Hyman Minsky has written lucidly and insightfully about the way in which complex financial intermediation destabilizes the growth process of the modern capitalist economy. Though based on, or inspired by, Keynes' speculations on the destabilizing properties of financial intermediation in *The General Theory* and elsewhere, Minsky's formulation of the financial instability hypothesis is, in many

ways, richer and more complete than was Keynes'. For an informative discussion of financial aspects of cyclical instability see, for example, Minsky's *John Maynard Keynes* and "The Financial Instability Hypothesis" and "Finance and Profits" in his *Can It Happen Again?*

50. Marx, *Capital 3*, p. 534.
51. *Ibid.*, p. 572.
52. *Ibid.*, p. 742.
53. *Ibid.*, pp. 619-620.
54. *Ibid.*, p. 706. Emphasis added.
55. Marx *Capital 1*, p. 236.
56. Marx, *Capital 3*, p. 621.
57. *Ibid.*, p. 649.
58. *Ibid.*, p. 363.
59. Although Marx uses the term crisis to describe both a phase of the normal business cycle and a system-shaking collapse of the accumulation process, the tenor of his language is usually more appropriate for the latter case: 'collapsing' commodity and financial markets and spreading 'panic' among businessmen and financiers are not aspects of all industrial cycles, at least not in modern capitalism. Marx's use of colorful and dramatic language may be explained by the historical novelty of the industrial cycle in the first half of the nineteenth century and by the absence of government policy institutions charged with attempting to limit the severity of economic downturns. Each downturn in that era was an occasion for panic; only some are today.
60. Marx, *Capital 3*, p. 572.
61. Marx, *Theories of Surplus Value: Volume Two*, p. 494. Emphasis on the word "usual" added.
62. *Ibid.*, p. 516.



# Dialogue, Utopia and the Division of Labor: Reflections on Some Themes

by Harry Magdoff  
Kim Edel and Matthew Edel

This essay offers some reflections on Harry Magdoff's achievements and on themes in his "The Meaning of Work."<sup>1</sup> That 1982 paper is a noteworthy treatment of a theme important to the *Monthly Review* school.<sup>2</sup> It also illuminates two aspects of Magdoff's thought and influence which are not easily captured in writing. One is his willingness to think about visions of what the world could be like. The other is his strong desire to communicate, to facilitate interchange and the development of thought. The interest in "utopias" is apparent in the serious discussion of Edward Bellemey and William Morris.<sup>3</sup> The emphasis on communication is present too, in the article's clarity of explanation, and in its history as a contribution to a "Christian-Marxist dialogue."

Harry Magdoff has been a critical influence on both of us. He helped introduce both of us to radical political economy. His gentle insistence on dialogue, both between individuals and between what "is" and what "could be" has been particularly important. To convey the essence of what Harry Magdoff has been to us, and to others, we each recount our early contacts with Harry and his influence on us. We then consider some themes of utopia, communication, and the division of labor raised in his 1982 article, as they relate to some of our own observations. In particular, we try to apply them to some issues of the urban-rural dialectic.

Paul Sweezy has also been an important inspiration for the radical economics movement. In emphasizing one aspect of Harry Magdoff's work, we do not wish to understate our admiration for Paul's leadership or for the theoretical analyses that Paul and Harry, along with Paul Baran, have contributed to the development of political economy. Our generation's concerns in the 1960s with the impact of capitalism and imperialism called out for rigorous intellectual analysis. The writings of the *Monthly Review* School, and particularly *Monopoly Capital*, provided the initial leadership in this direction, opening the way for both a rediscovery of Marx and for new analyses.<sup>4</sup> The economic crisis that unfolded in the 1970s, and the resurgence of imperialist conflict, make the specific analyses of Sweezy, Magdoff, and Baran all the more important. But other contributions to this book amply celebrate these works. By accident of geography, and typical urban networks, our own personal contact has primarily been with Harry Magdoff. We consider some of the lessons he has taught us or stimulated through these personal contacts to be worth sharing.

### A. Matthew Edel's Account

Growing up with Progressive or Socialist values in the 1950s could be a lonely experience. While many of my parents' friends shared these values, they were not visible among teenagers in the semi-suburban neighborhood of New York in which I grew up. Although aspects of American policy might safely be challenged in some school settings, like a model U.N. where I argued for recognition of China, in other classes it was clearly best to remain quiet. In social settings, alternative political values were not discussed at all. Being "intellectual" was sufficiently nonconformist.

In such a situation, it came as a liberating experience half way through high school, to discover some of the "Red Diaper" networks and institutions that existed in New York. The most important of these involved folk music. At *Monthly Review's* 30th birthday celebration, someone recalled that the Left in the 1950s was represented visibly by *MR*, *The National Guardian*, and Pete Seeger's banjo. Although the *Guardian* came in the mail at home, it reinforced a sense of separateness. (I cannot be certain, but I think it even came in a brown paper wrapper). But folk music was open and public. The Hootennanies at the Pythian Temple and whatever other halls would rent to the "Reds," and the informal gathering of singers every summer Sunday at the fountain at Washington Square, became places where values were proclaimed loudly in a supportive group, and where friendships developed.

I met Harry Magdoff because his son, Fred, played banjo, and was friends with several people from my own school, who in turn were folksingers (and radicals). After several weeks of hearing obscure but excited references to "Freddy's Monday Nights," I was finally invited to attend the discussion group that Harry Magdoff had been running for teenagers at his home one school district over.

At the time, Harry was working in an office. He had long since been driven from employment as a government economist, and he had no possibilities for university teaching. But he had a strong desire to teach, and his son's friends, first Michael's and then Fred's, were the pupils he could find. Harry and Beadie provided a welcoming atmosphere for us, and the discussions ranged over current events in the West, the situation in the Communist countries (this after Hungary and Khrushchev's turn against Stalin), and our own problems as nonconformist teenagers. It was assumed we all thought capitalism caused problems, and socialism would be a good thing, but there was no tight line to follow. People debated, disagreed, thought, asked questions and learned. Sometimes Harry would draw on his voluminous heaps of clippings to solve a question, or go look up a quote in his library. Sometimes he would give a careful, patient explanation of some point, such as why capitalist business cycles were inevitable. But the explanation was always posed as an aid to thought, not a "right answer" to cut off discussion.

A few months after I joined the group, Harry suggested we undertake some formal discussions of readings. At the time, *1984* and *Brave New World* were the main social critiques to which we had access in school. We decided to pursue the study of utopias and anti-utopias. Harry started us off with nothing less than Plato's *Republic*, with its model of an authoritarian society. We went on to Jack London's *The Iron Heel*, as well as *Looking Backward* and *News From Nowhere*. Of course we discussed Huxley and Orwell, and the latest sensation, Djilas' *The New Class*, which I recall, Harry did not like.<sup>5</sup> In the process, we did not come to any one neat conclusion. My own views at the time, were (inconsistently) overenthusiastic about "planning" and negative about "bureaucracy." I did not understand that each might have different meanings in different social systems. But the discussions let us glimpse that there might be different ways of organizing societies to face problems, and that organization might be complex. Mainly, we learned how to think through problems and how discuss and argue in a nonadversarial way. I came away with the confidence of being part of, at least, a network and a subculture, if not yet, as it became in the 1960s "the Movement." And, I gained a conviction that intellectual work in the social sciences, and the work of teaching, were important and could make a social contribution.

As I followed a career in economics, Harry Magdoff remained a source of ideas, advice, and inspiration.

### B. Kim Edel's Account

I grew up in the "West," in what I now realize were anachronistic corners of the country, not yet transformed by monopoly capital. My grandmother believed that of course all "Ladies" should be able to embroider, sew, turn collars, wear white gloves if going farther than the fence and go to college if possible. I grew up seeing women haul hay, rope cattle and argue with men.

It was an environment with flaws and some hypocrisy, but one which stressed honor, and honored eccentricity. One didn't expect people to be "alike" or to agree. My grandmother and father were Republican and Democrat respectively and argued vociferously. But the only time I can remember hard feelings around disagreement were when over-grazing and bad farming practices were discussed: they destroyed the "LAND" and were tantamount to sin.

I thought myself as conservative, valuing "old" Jeffersonian and populist ideas, such as the right to do as one pleased if it didn't harm Land or other people. Government was perhaps necessary, but it was potentially evil, as were large corporations which could not be bound by community ties. I was horrified by Christian missionaries and demanded that my youth group refuse to support them. Some of my ideas I held alone, some I held in agreement with others, but

at no time did I feel pressured to stop arguing or presenting cases, although I was informed that I talked too loud and fast. When I was taken to local NAACP meetings in the early fifties, it was neither "radical" nor "political"; it was just the right thing to do. Everyone should have the right to work anywhere, and skin color was clearly an absurd criteria for any judgement, short of what color dress should be worn to a party. When my mother fought a school district to get migratory workers' kids admitted, no one, not even the superintendent thought it was political. She was "impractical" and perhaps "romantic," but even when she was denied tenure she was given superb references and she never had trouble getting a job. Her ability to teach, and her right to hold her "Peculiar" views were never questioned. It gave me perhaps an overconfident view of what the rest of the world was like.

My freshman year of college in Wyoming I saw a film called "Operation Abolition." I was shocked the government had hosed people who wanted to be present at a trial. My friends refused to believe it: our government would never deny such obvious civil rights. My political education had begun.

My arrival in Berkeley was accompanied by a certain amount of culture shock. It was too big, impersonal; it functioned by a different set of rules. I was appalled that the University administration could even consider denying table space on the basis of "political" belief. Characteristically, a friend wrote back from Wyoming to tell me I must have misunderstood the administration's decision.

Many of my friends called themselves "radicals." This struck me as a non-sequitur. I couldn't imagine wanting to label oneself. Nor could I understand the personal animosity generated over a disconcerting degree of conformity, judgmentalism, and prejudice among the radical factions and splits I was involved with.

The most social pressure I have ever felt came from radical friends who didn't like the way I dressed. I put myself through school doing various jobs, including translating in court, which paid very well and which I considered a real service, but attorneys, judges and almost invariably the clients "felt" better when I dressed conservatively. Besides, I liked my clothes. When I had money to buy a camel coat on sale or a field jacket I chose the coat. I was enraged by friends, many of whom did not support themselves, who told me in no uncertain terms I should have bought a field jacket. A good radical did not wear makeup, did wear jeans and a field jacket. I would not wear a uniform for the army and I would not wear one for radicals. I instead informed them that I was not a radical. Luckily they "forgive" me my idiosyncrasy.

It took years before I was willing to call myself a radical. Harry Magdoff removed much of the onus.

When I moved to New York, one source of culture shock was the replacement of the Berkeley argot of "What are you into?" or "what's your sign?" with New York's "What do you do?" Initially I believed this to be a

conversational gambit, but I shortly discovered that it was a request to define oneself and one's placement in the hierarchy. In that sense I had left my "identity" in the West. I was not in school, did not understand that "Berkeley" itself had prestige, and held no full time job. I had in fact become a "Wife." The odd jobs I was doing (such as editing a friend's pornographic murder mystery) I thought of as fun and not my "career." At one social event, a very nice older couple asked what I did, and I said I was playing these days and having a lovely vacation, "Ah" they said, "but what do you usually do?" Over twenty minutes we all became increasingly uncomfortable. I had provided school, major, and past work experience but no "career"—neither "housewife" nor "editor." It became clear that they didn't know what to do with me, nor how to evaluate what I said. I left determined to tell people that I was a stable hand in the Central Park Stables.

Harry Magdoff and his wife Beadie invited us to dinner about the same time. Not once during the evening did either of them ask "what I did." Rather, there was a great deal of interesting dialogue, a flow of information and ideas, discussion and argument. As we left that evening, we lingered in the hall to argue about the need to know what others have said on a topic. Is an idea "worthy" if independently arrived at or pursued, or is it important to read the "classics" and to "go on?" Some of the offshoots of that discussion I still think about today; they still cause me to question my relationship to students and to my own "knowledge."

What is memorable about the situation is that Harry and Beadie saw "me." I was allowed personhood without "pedigree," and radical ideas without "radical" conformity. That is a far reaching tribute. Harry is concerned with ideas and values, and he listens to *them* not to the stature of the speaker. He not only "believes" in communication, he performs it. Certainly he has his opinions. No one loves everyone. There are undoubtedly people he will not listen to, will not hear. But the basis for those judgements will be idiosyncratic (human), not prejudicial or structural. Further he encourages dialogue. I cannot imagine a taboo topic around Harry.

### *C. The Importance of Dialogue*

Dialogue like physical exercise is good for you. It stimulates and exercises mental muscles. It is also a great deal of fun. One gains not necessarily by being right, but by the development of good argumentation, by the construction of good argumentation, by the construction and exchange of coherent thought processes. Ideas building on each other generate excitement. But, dialogue is more than necessary mental stimulation: it is critical for those of us who believe in the dialectic process. Dialogue is important for two reasons. *First* to be listened to, to be understood, to convince, one must have respect of the listener.

Yet to be respected, one must also give respect, be a listener, be willing to learn. A mutual dialogue can benefit both parties, and most people, from any background, can be open to that. But few creatures care to be "inferior," which lack of respect implies. It is galling to believe that one has nothing to offer a "superior" creature.

*Second*, and perhaps more important, we can all learn and benefit from an open exchange of ideas. It is altogether too early to assume the model: "There is an answer and it is mine." If our answer is the "TRUTH" (the rate of profit is falling, the rate of profit is not falling) then we need not seek dialogue, synthesis. If we speak to those of other views it is to bolster arguments, not grow nor to have fun. The danger in this easy approach is that in our righteousness the potential praxis, the better answer, will be lost. Neither side may be aware of what the ultimate benefit of a dialogue will be. It is sometimes difficult to know what will be deemed of value by the other side, but it would be most tragic if the dialogue were slighted so that the wares available were never even seen. Digitalis existed long before it was "discovered" by listening to a "savage."

There is a case to be made that a diversity of opinions and outlooks is a positive benefit. The case has been made by ecological and utopian social thinkers who argue that the diversity of nature, its many species and genetic variations, are a guard against disaster. Variation allows for a flexibility that gives strength. Diversity within the natural sphere is riotous and clearly plays a critical role. Ecological chains tend to be infinitely more diverse, minute and extensive than we expect. Capitalism sometimes shows us this by destroying it. For example, when a southern lumber company was forced to "reforest" an area of extensive cutoff, they planted a quick growing pine. To attract hunters they even populated the area with deer in order to produce a semblance of the original forest. It was a disaster. A forest needs diversity to become a viable community.<sup>6</sup>

Capitalism has done similar things to urban environments. Lewis Mumford gave one example in his history of American architecture.

By a happy congruence of forces, the large scale manufacture of Portland cement, and the reintroduction of the Roman method of concrete construction, came during the period [when monopoly consolidated]. Can anyone contemplate this scene and still fancy that imperialism was nothing more than a move for foreign markets and territories of exploitation? On the contrary, it was a tendency that expressed itself in every department of Western civilization, and . . . stamped the most important monuments and buildings with its image . . .

The change in the social scene which favored an imperial setting was not without its effects upon the industries that supplied the

materials for architecture, and upon the processes of building itself. Financial concentration in the stone quarries, for example, was abetted by the creation of a national system of rail transportation, and partly, perhaps, by the elaboration of the mechanical equipment for cutting and trimming stone beyond a point where a small plant could work economically. The result was that during this period small local quarries, which had been called into existence by Richardson's fine eye for color contrasts, were allowed to lapse. Vermont marble and Indiana limestone served better the traditions that had been created in the White City.

" . . . The curious result of being able by means of railway transportation to draw upon the ends of the earth for materials has been, not variety, but monotony. Under the imperial order the architect was forced to design structures that were identical in style, treatment, material, though they were placed thousands of miles apart and differed in every important function."<sup>7</sup>

Many of us on the Left deplore the insatiable expansion of "capitalist civilization" and its imposition of uniformity: a McDonald's on every strip in every village. We are offended that the food we loved in a Peruvian village will give way to Colonel Sanders. We don't wish to prevent change, to hold back benefits of technology. (A refrigerator may be a clear benefit, while packaged infant formula is a curse). But we advocate that the villagers have power and freedom within their dialogue with technology. This is not just a desire for fair play: we intuit that the diversity of cultures will have a positive side.

But another aspect of uniformity is significantly more frightening. If there is any analogy with "nature," we may need diversity of ideas, knowledge. To assume that there is "One Way to do things" (even if it originates with us) is as preposterous and as dangerous as believing a field of cultivated pines will make a forest.

It is sometimes difficult to appreciate the need for diversity. The insect which fertilizes the berry bush which feeds the birds which carry the grass seed which grows to feed the deer is all too easy to overlook in the desire to plant the perfect pine tree. One of the most powerful reasons to encourage the Tanzanians (et al.) to attempt a "Tanzanian solution" is the fervent hope it will be different than ours. They may notice the berry bush while we concentrate on the deer. Perhaps we may observe and borrow those traits which will strengthen us all.

Harry Magdoff's gift as a promoter of dialogue is *particularly* noteworthy because the importance of dialogue is often ignored by progressive intellectuals in the United States. It is not that we do not believe in teaching, or in spreading our paradigms and analyses. Most on the Left would agree it is self-defeating not to communicate one's own political and analytical ideas. But we often do so in a one-directional manner, explaining but not listening. Or we presume a high



level of agreement, and talk only among ourselves. We would argue that communication must be two-way. Dialogue requires respectful listening and willingness to learn from the other; this implies also we have faith that the other is capable of both learning and teaching.

Unfortunately, the Left too frequently accords respect with a backhanded assumption of "equality" which it then denies with equal if unconscious facility. Workers "deserve" good wages and decent working conditions but may not receive the respect of having their "hard-hat" ideas heard. Women "deserve" equality of opportunity, but heaven forbid a housewife should attempt a political discussion if she hasn't read at least two volumes of *Capital*. Institutionalists should by all means have their own journal, free speech and all that, but they haven't really seen the light and they are naive. The implication we convey is that "we have the sophistication, the knowledge" and "they" don't. If this is our attitude, can we really expect people to listen to us?

Communication can be difficult. We have both been active in the Union for Radical Political Economics. Over the years, U.R.P.E. has engaged in heated debates about whether it is valid to use technical terminology and jargon, and it has introduced sessions on political economy for noneconomists at summer conferences. But the debates have often degenerated into a swapping of recriminations of "elitism" or "antiintellectualism," with little thought perhaps that technical language may facilitate dialogue in some situations even as it blocks it in others. The sessions for noneconomists sometimes fell into the lecturing mode that Freire calls "the banking concept of education."<sup>8</sup> The attempts are valid, though the failures bespeak the difficulty in our milieu.

Why is this difficulty so great? In part, our status as "intellectuals," is itself a product of the capitalist division of labor. To be an expert implies, somehow, that one must be right, and our livelihood is gained by being experts. The entire history of class society, with its distinction between manual and mental labor, conspires against us. Our specific graduate school training and university milieu reinforced the distinction. As materialists we recognize this. This recognition can help us counter the difficulty, but not completely. The Chinese revolution recognized and fought the separation of "expert" and "red"; yet even they have troubles moving towards a dialectical unity of the two. Trapped in capitalist society, we cannot simply will out of existence the forces that make it difficult. Yet we can give higher priority to the struggle.

In part, our lack of attention to dialogue may stem from our materialist analysis. As materialists, we believe that conflicts are real, and that economic forces shape ideas. We are rightly scornful of the way that American capitalist culture has debased dialogue and used "lack of communication" as a catchword to hide real conflict. "What we have here is a failure to communicate," says the movie ad, showing the warden whipping Cool Hand Luke. We know this is nonsense. We chuckle because it parodies a common claim. We frequently hear communication oversold. The claim that the conflict of labor

and capital amounts only to a lack of channels for communication is patently false. Yet scorn for the abuse of dialogue should not blind us to the importance dialogue can have. The ways by which, and the speed with which, conflicts and material forces shape ideas are in turn shaped by human agency, including dialogue. The tools for reasoning and communicating are part of the material basis of human life. How we use these tools matters.<sup>10</sup>

#### D. Utopia as Dialogue

Utopian thought has an important place in the concept of dialogue we have been expounding. Utopias can expand the diversity of possible societies with which dialogue is possible.

To write down a utopian scenario forces us to confront complexities, to think through the directions in which action might take us. This is true whether it be the essayist or novelist's utopia (*Island*, *Herland* or whatever) or the more visionary thought of a Mao, a Marx or a Che Guevara.<sup>11</sup> A dialogue between our analysis of present reality and future possibility then becomes possible.

This is not to expect a utopia to be an exact blueprint to be followed in all its details.<sup>12</sup> Nor can a vision of a better society substitute for the analysis of current material reality, or for the search for praxis. Marx's scorn for "utopian" thought was a rejection of such abuses, but it did not prevent him from positing his own brief vision of a society without the division of labor.

It was to this vision, and those more openly "utopian" writers, that Harry Magdoff appealed in his paper on "The Meaning of Work." More than two decades had passed since he led the discussion group on utopian writings. The intellectual development of socialist thought had meanwhile brought new problems to the fore. The contributions of Paul Sweezy, Charles Bettelheim and Harry Braverman, among many others, had moved the issue of work and its content to center stages, in place of the focus on planning and bureaucracy of the 1950s discussions.<sup>13</sup> But the need for dialogue with Utopias was still present. Magdoff's essay presents the vision of a new social order emerging from history and struggle. He stressed the need to eliminate the major divisions of labor "between intellectuals and workers, between administrators and the masses, and between country and city." He evokes Marx's optimism about the possible continuous transformation of human nature, but he also draws upon William Morris' vision of "the satisfaction that can be derived from work."

This brings Magdoff to defend the kind of utopias that Marxists often scorn. Morris thought the satisfactions could only be realized in a rural handi-craft oriented society, an environment of a simplified way of life and a release from the pressures of artificially stimulated wants. Magdoff comments,

What is especially interesting about *News from Nowhere* is not that the author provides us with the answers we need for today's

complex world. Since his solutions concern the distant future they can only be utopian in essence. The real solutions will have to be provided by history. On the other hand, the issues he introduces about the quality of life, work and culture in classless society deserve attention. They have the merit of suggesting ideas that can influence the way today's struggles for a better life should be conducted.<sup>12</sup>

The dialogue, and the dialectical interaction, between utopian vision, analysis of the present reality, and struggles for a better life is fundamental for radical activity. We have learned this from Harry Magdoff and we relearn it again and again in our own teaching and academic and political work.

### *E. The Division of Labor*

One constant struggle for us, for which Magdoff's and Braverman's analyses of work is critical, is the attempt to help our students understand that there are possibilities for "work" that go beyond the job listings of the college catalogue or the want ads. In a time of high unemployment, it is no small triumph when a public college graduate gets a secure entry-level position. We can understand why accounting and computer sciences have become the most popular majors at our college. It would be hypocrisy to advocate that students turn down the few opportunities they now have. But we try to convey to them some sense of alternative possibilities, so that they won't see today's offices as the best of all possible worlds, or feel themselves personal failures if they do not move to the top of the corporate ladder.

In his essay on work, Magdoff quotes some of Studs Terkel's interviews with workers to show the limits to jobs in our society:

Nora Watson, an interviewee, may have said it most succinctly. I think most of us are looking for a calling, not a job. Most of us, like the assembly line worker, have jobs that are too small for our spirit. Jobs are not big enough for people.<sup>15</sup>

And he quotes Baran and Sweezy's *Monopoly Capital*:

Asked if he liked his job, one of John Updike's characters replied, "Hell it wouldn't be a job if I liked it."<sup>16</sup>

Our students believe that the world of work is divided into realms of "jobs" and "careers." "Jobs" they see as involving low pay, no control over work, subservience to employers, lack of security, and lack of commitment. Their

only virtues are that they pay at least something, and that one's obligations end when one punches out on the time clock. "Careers," on the other hand, are expected to yield dignity and control, responsibility and prestige, some measure of security and continual upward mobility, as well as better pay than "jobs." However, a "career" also demands intense personal commitment. One is expected to work overtime, to take one's work home, to think and to study continually in one's field, to sacrifice family and friendship networks if necessary, or at least to build those ties as means to career advancement. What is more, the conception of "career or job" carries with it an obligation to succeed: if one is not continually advancing—if one settles for a job or stagnates on a career track—one is a personal failure. If only you tried harder or were better . . .

This ideology is well entrenched. It has been taught by media and schools along with the related ideologies of Americanization and the American Dream. It has been reinforced by periods of apparent mobility and economic growth, when bureaucracies and businesses have expanded opportunities for white collar work. But its basis does leave it open to challenge. It has never been true that everyone could advance to real positions of power under capitalism.

Pointing this out, denying belief with statistics, is one aspect of combating the ideology. But that is not enough. One must convince students that not only is the present situation not benign, but also that it is not inevitable. Otherwise, a conservative social Darwinism, a sense of inevitable personal struggle against the world, is a likely substitute for liberal optimism. Positing alternatives that go beyond any existing world society, making students argue with and begin a dialogue with utopia, can be an entering wedge for a more personal and political dialogue. Having encountered somewhere not only a structural analysis of capitalism, but also a radical-utopian sense of alternatives can, at least, be a potential source of self-respect for the great majority who will not become corporate vice-presidents. In some cases, it can lead to eventual openness to political movements, but only if those movements are themselves willing to attend to the student's concerns. The dialogue with utopia and the open dialogue between individuals with different experience merge here. Both are needed as part of political praxis.

### *F. City and Country*

The work process, the labor market, and the division of labor by occupation, by race and by gender have been the subject of much recent thought on the Left. Another facet of the division of labor, however, also calls out for more communication and more thought about alternatives than it has received. In his talk on work, Harry Magdoff touches on the division of labor between town and country as the first decisive social division of labor to take the form of an

exploitative antithesis. He presents the analysis of early divisions of labor analyzed by Marx and Engels, and makes the point that even today in China, this is a crucial issue.

Issues of material exploitation of the country by the city—of the transfer of food and other real resources—are real enough today, both between center and periphery under capitalism, and in countries that are attempting to build socialism. But the need for dialogue, for a finding of common ground, between country and city is also important within movements of the exploited. Marx's writings on the Paris Commune illustrate the tragedy of lack of such dialogue. When the workers seized Paris in 1872, they called for peasant uprisings, as necessary for the survival of the revolution. But a history of city-country conflict impeded the message from being forcefully delivered or heeded. The city saw rural France as reactionary. Although workers knew there were poor peasants, their image was dominated by their experience with ultraconservative delegates to the assembly sent by the rural upper classes. What the peasants knew best about Paris was that taxes were sent there, not that workers were fighting for a communal federation that could have created a common worker-peasant interest.<sup>17</sup>

City-country splits no longer take center stage in the ongoing politics of the United States. However, a lack of communication between "more urban" and "more rural" regions, is still troublesome. Even within the Left, even within the network of radical political economists, we have found this to be a problem. There is a sense in which mutual suspicions between regions, including a sense of urban parochial smugness, can make dialogue difficult. We are perhaps unusually exposed to this separation, since we grew up in such separate regions.

It is very difficult for those who live close to the apex of power to understand how, even with the best of intentions, their actions can be perceived as condescending. We on the Left have been learning this is true in the cases of racism and sexism. It is also true in the case of urban-rural dichotomy.

We were once attending a stereotypical cocktail party and were having a very enjoyable discussion (while standing on a balcony, glass in hand, looking at the city lights below) on beef prices, lending rates and land usage with a banking official who made frequent business trips to Denver. At some point, probably to slice brie, the banker paused and asked how Kim could know about those topics. (Matt was an economist and could be presumed to understand anything dealing with money). When Kim replied that she'd more or less grown up on a ranch, the gentle soul almost swallowed his glass with his drink. Within seconds the conversation was on fly fishing and the beauties of the Rockies.

If anyone had accused the very nice young banker of thinking Kim was a "country bumpkin" he would have been very indignant. He would have likely thought of a real bright old duffer he had once met fishing as the example. We both thought the incident amusing, atypical, and while possibly representing

"that" group of New Yorkers' perceptions, something that would certainly not appear in the "Left."

Yet some time later Kim told the story to a group discussing "families on the Left," the difficulties of raising children in a capitalist society, and the feelings of isolation and division engendered by capitalism's very nature. After the story, most of the group nodded. One participant said, yes, he really understood how subtle forms of pressure were at work, and how strong the divisions were. Why in his area there were some problems between the city and the surrounding farming community. Some of those farming kids just didn't seem to have much ambition. It was hard to motivate them. Poor kids, they just wanted to stay farmers!

These are, perhaps, minor examples of an unconsciously patronizing attitude. But such attitudes can combine with the material underpinnings of the distribution of power, to create serious difficulties in a political movement. While Kim was serving as editorial board coordinator of the *Review of Radical Political Economics*, one of the conflicts in the organization involved a sense by board members and authors from the Plains and Mountain States, that decisions were dominated by a New York or northeastern elite. In part, this sense stemmed from experiences with unequal power and patronizing behavior extraneous to the decisions involved, and even to U.R.P.E. But in part, it responded to actual differences in experience in the organization.

Individuals in places with few other Marxists had greater needs for U.R.P.E. as an intellectual and social support network than did those in New York, but differing views of what the organization should be were rarely articulated. The same "isolated" individuals more often had dialogues with institutionalists, populists and other nonmarxists, than big city Marxists, who often devoted their energies to social contact and intellectual debate with the Marxist camp. Thus residents of the "city" felt the "country" group was naive; in return, they were accused of sectarianism.

Nor did big city members realize that major decisions were often made during informal social contacts among city residents, or in the course of quick phone calls. For those in the West, informal contacts with the organizational "core" in New York were limited. Even phone calls were costly, and hence tense and formal events. Not recognizing how much power they had, New Yorkers sometimes made policies that "Westerners" felt were major slights. And when Westerners first tried to articulate their complaints, without having the information for a full analysis of how decisions were made, New Yorkers "heard" only a complaint about the city as such. This in turn played into a preexisting New York defensiveness at having been stigmatized as the center of immigrants. Concrete complaints might then be ignored as irrational anti-city bias, even as racism.

This history, limited though it be, suggests that dialogue with rural perspectives may be extremely important for what has become an increasingly

urban, two-coasts-focused, Marxist movement since the days of the IWW and the early Socialist Party. Personal dialogue is certainly needed in such a situation, just as it has been and is needed in response to racial, ethnic and gender splits in working class and Left movements. A dialogue with rural visions is *also* needed because, whatever the material centrality of urban industrial labor, urban factories are not the only places where people are victimized by monopoly capital.

Small farm or ranch operators, defending their position in capitalistic society are a threatened group. Their ambiguous class position may place them on the reactionary side of some specific issues, but on many issues they do or can take radical stands. Dialogue may help bring them into a Left alliance. But more important, there may be a place for their utopias and urban utopias to be brought together, to help in the development of richer anti-capitalist models.

The traditions and cultures of farmers and ranchers encompass their own critique of capitalist alienated labor. These traditions may be being overwhelmed by rural proletarianization, by the growth of agri-businesses and conglomerates, and by the ties that bind even individual operators to banks and government. But they are not completely dead. If we have learned that the alienation of labor is a vulnerable point in capitalism, and if we believe that thought about alternative ways of life can be part of the response to that discovery, then we cannot leave out the rural side of the dialogue.

Magdoff's readmission of a utopian like William Morris to the dialogues of the Left is a useful step. The step must go beyond the statement that Morris introduces important issues, but his answers will not fit "today's complex world." We need to facilitate greater interaction between the images of a good life presented by Morris, or other decentralists like Paul Goodman or Martin Buber, as well as those in the broader populist tradition, and the images raised by Marx and others who assume an industrial milieu.<sup>18</sup> Do we mean, when we subscribe to the need to overcome "the antagonism of country and city" that all society must be homogenized, or are certain nonantagonistic diversities possible? The questions are vast, but they can begin to be addressed.<sup>19</sup>

It is most important to us about Harry Magdoff's practice that he encourages us to consider and continue dialogues such as these.

### Notes

1. Harry Magdoff, "The Meaning of Work: A Marxist Perspective," *Monthly Review*, Vol. 34, no. 4, October 1982, pp. 1 - 15.
2. See especially Harry Braverman, *Labor and Monopoly Capital*, New York: Monthly Review Press, 1974; and Andrew Zimbalist, editor, *Case Studies on the Labor Process*, New York: Monthly Review Press, 1979.
3. Edward Bellamy, *Looking Backward, 2000-1887*, Cambridge: Harvard University

- Press, 1967; first published 1888. William Morris, *News From Nowhere*, New York: Charles M. Kerr and Co., 1891.
4. Paul Baran and Paul Sweezy, *Monopoly Capital*, New York: Monthly Review Press, 1965.
5. George Orwell, *1984*, New York: Harcourt Brace, 1949. Aldous Huxley, *Brave New World*, New York: Harper Brothers, 1946. Jack London, *The Iron Heel*, New York: MacMillan, 1937. Plato, *The Republic*, tr. F.M. Cornford, New York: Oxford University Press, 1945. Milovan, Djilas, *The New Class*, New York: Praeger, 1957.
6. Malcolm Margolin, "Forests: The Habit of Waste," *The Nation*, Vol. 210, no. 8, March 2, 1970, pp. 238-240; Matthew Edel, *Economies and the environment*, Englewood Cliffs: Prentice Hall, 1973.
7. Lewis Mumford, *Sticks and Stones*, New York: Boni and Liveright, 1925, pp. 135-137.
8. Paolo Freire, *Pedagogy of the Oppressed*, New York: Herder and Herder, 1970.
9. We often forget that the very concept of the dialectic developed dialectically out of the Greek method of teaching, learning, and investigation through dialogue. See Abraham Edel, *Aristotle and His Philosophy*, Chapel Hill: University of North Carolina Press, 1982, pp. 190-204.
10. See Matthew Edel, "A Note on Collective Action, Marxism, and the Prisoner's Dilemma," *Journal of Economic Issues*, Vol. 13, no. 3, September 1979, pp. 751-761.
11. Aldous Huxley, *Island*, New York: Harper, 1962; Charlotte Perkins Gilman, *Herland*, New York: Pantheon, 1979.
12. Similarly, the working out of a process of revolution is not one of awaiting a revelation from some perfect theoretician or (spontaneously) from the masses. It is a process of experimentation and evaluation, a dialogue between goals and realities. The comparison of two recent works on Cuba makes the point clear. An evaluation in a neoclassical framework, using five predetermined "progressive" criteria faults the revolution for, among other things, wavering back and forth in its "line" on worker incentives and other matters. A dialectical analysis, however, suggests that changes of line were a form of learning from experience, a sign of the revolution's vitality. The neoclassical analysis sees Guevara's utopian visions alternately as a dangerous diversion and as a yardstick against which the revolution's accomplishments must be judged; the dialectic analysis sees them as just one part of a society's groping to find its path. See, respectively, Carmelo Mesa-Lago, *The Economy of Cuba: A Two-Decade Appraisal*, Albuquerque: University of New Mexico Press, 1981; and Arthur MacEwan, *Revolution and Economic Development in Cuba*, New York: St. Martins Press, 1981.
13. Braverman, *op. cit.*; Paul Sweezy and Charles Bettelheim, *On the Transition to Socialism*, New York: Monthly Review Press, 1972.
14. Magdoff, *op. cit.*, p. 15.
15. Studs Terkel, *Working*, New York: Pantheon, 1972, cited in Magdoff, *op. cit.*, p. 10.
16. Baran and Sweezy, *op. cit.*, cited in Magdoff, *op. cit.*, p. 11.
17. Karl Marx and Friedrich Engels, *Writings on the Paris Commune*, edited by Hal Draper, New York: Monthly Review Press, 1971.



18. Paul Goodman, *People or Personnel*, New York: Random House, 1965; Paul Goodman and Percival Goodman, *Communitas*, New York: Random House, 1947; Martin Buber, *Paths in Utopia*, Boston: Beacon Press, 1958.
19. Henri Lefebvre, *Le Droit a la Ville*, Paris: Anthropos, 1968; and Raymond Williams, *The Country and the City*, New York: Oxford University Press, 1973, are partial explorations in French and British contexts.

## Sweezy and the Proletariat

Richard Edwards

In 1967 Paul Sweezy published an important essay called "Marx and the Proletariat." In this essay he addressed the fundamental issue, for Marxists, of why the working classes in the advanced capitalist countries have not and did not appear likely to effect a transition to socialism. Although Sweezy seems more recently to have abandoned his answer, we should not do the same, for, as I argue below, Sweezy's earlier answer was essentially correct. The "historical" Sweezy, with some suitable reformulation, wins out, I claim, over its successor.

Moreover, the issue that Sweezy raised, in his characteristically honest fashion, is one which continues to be at the center of debates about the modern working class and socialist strategy today. The eighteen years since Sweezy published his essay, years of such developments as Eurocommunism, Socialist electoral victory in France, continued decline of the American union movement, and the split of the British Labor Party, have reasserted the importance of the basic issue. And the virtual floodtide during these years of studies of the labor process and the working class demonstrates the relevance of Sweezy's essay to contemporary theoretical concerns.

Sweezy raised the issue in the following way:

Marx's theory of capitalism . . . holds that capitalism is a self-contradictory system which generates increasingly severe difficulties and crises as it develops. But this is only half the story: equally characteristic of capitalism is that it generated not only difficulties and crises but also its own gravediggers in the shape of the modern proletariat. A social system can be ever so self-contradictory and still be without revolutionary potential: the outcome can be, and in fact history shows many examples where it has been, stagnation, misery, starvation, subjugation by a stronger and more vigorous society. In Marx's view capitalism was not such a society; it was headed not for slow death or subjugation but for a thoroughgoing revolutionary transformation. And the reason was precisely because by its very nature it had to produce the agent which would revolutionize it. This is the crucially important role

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which the proletariat plays in the Marxian theoretical schema.

In the eyes of many people, including not a few who consider themselves to be essentially Marxists, this theory of the revolutionary agency of the proletariat is the weakest point of the whole system. They point to the fact that the English and other Western European proletariats, which Marx considered to be the vanguard of the international revolutionary movement, have actually developed into reformist forces which, by accepting the basic assumptions of capitalism, in fact strengthen it. And they note that the proletariat of what has become the most advanced and powerful capitalist country, the United States of America, has never developed a significant revolutionary leadership or movement, and shows fewer signs of doing so today than at any time in its history.

I do not believe that the empirical observations which support this type of criticism can be seriously challenged.<sup>1</sup>

How, then, did Sweezy defend the validity of Marxian theory against this apparently damning empirical criticism? The answer involved two parts, only one of which is relevant here.

One part, which Sweezy has quite appropriately continued to defend, argued that capitalism "is not and never has been confined to one or more industrializing countries, but is rather a global system. . . ."<sup>2</sup> Thus, the decline of revolutionary potential in the working classes of the advanced countries is offset by the rise in revolutionary potential in the Third World. Therefore, when viewed from a world perspective, Marx's theory is in accord with the facts.

Most of Sweezy's essay, however, and the part that is relevant here, was devoted to an explanation of the decline of revolutionary potential in the working classes of the advanced capitalist countries. Here Sweezy's argument may be paraphrased as follows: Marx emphasized the division of the history of capitalism (up to his time) into two drastically different epochs of capitalist history, namely, the period of manufacture proper and the period of modern industry based on machinery. The revolutionary potential of the proletariat derives strictly from the period of modern industry, Sweezy claimed, for it is during this period that the logic of capital accumulation pushes both technological development and the shaping of the working class into a "revolutionary" mode. Sweezy then raised a question which Marx did not address: "If, for whatever reason, the emergence of a revolutionary situation is long delayed, what will be the effect in the meantime of modern industry's revolutionary technology on the composition and capabilities of the proletariat?"<sup>3</sup>

Here Sweezy went beyond Marx, and for Sweezy the key lay in the fact that capitalism seems to have entered into a new period of capitalism:

Allow me . . . to present a very brief summary of my thesis: In Marx's theory of capitalism, the proletariat is not always and necessarily revolutionary. It was not revolutionary in the period of manufacture, becoming so only as a consequence of the introduction of machinery in the industrial revolution. The long-run effects of machinery, however, are different from the immediate effects. If the revolutionary opportunities of the early period of modern industry are missed, the proletariat of an industrializing country tends to become less and less revolutionary.<sup>4</sup>

In this "later" period of modern industry, two aspects of technology account for the decline of revolutionary potential. The first is that, by raising labor productivity, technology reduces the number of operatives or the "traditional blue-collar segment of the proletariat" as a proportion of the working class. The second is the other side of this coin, namely a rise of "a great variety of new categories of jobs." As Sweezy put it:

To sum up: The revolutionary technology of modern industry, correctly described and analyzed by Marx, has had the effect of multiplying by many times the productivity of basic production workers. This in turn has resulted in a sharp reduction in their relative importance in the labor force, in the proliferation of new job categories, and in a gradually rising standard of living for employed workers. In short, the first effects of the introduction of submachinery—expansion and homogenization of the labor force and reduction in the costs of production (value) of labor power—have largely been reversed. *Once again, as in the period of manufacture, the proletariat is highly differentiated; and once again occupational and status consciousness has tended to submerge class consciousness.*<sup>5</sup>

Sweezy's answer to the question he poses is ultimately unsatisfactory. One problem is that he assumed that a more homogeneous working class is a more revolutionary working class, and that the traditional blue-collar segment of the proletariat is the working class's most revolutionary part. These unexamined assumptions are not obvious, and even though they are probably correct, they require scrutiny. A second problem is that he accepted a rather narrow conception of socialist transition (visions of the Russian, Chinese, and Cuban revolutionary processes seem to predominate), although here Sweezy simply shared a preconception with most of the non-social-democratic left tradition.

But the biggest problem with Sweezy's answer is his heavy reliance on technology to drive the changes he sees between the "early" and "late" periods of modern industry. Technology, in this view, becomes the main

determinant of the relations between capital and labor, to the extent that at one point Sweezy reduced his task to that of indicating "why it seems to me that the advance of modern technology must tend to shape a proletariat which is less rather than more revolutionary than that . . . of the nineteenth century."<sup>6</sup> This technological determinism seems unnecessarily restrictive and implausible.

Nonetheless, Sweezy's essay contained many of the ideas that would motivate later work. The basic question he posed, along with his terse review of the empirical evidence—a review which is, incidentally, little challenged by the experience of nearly two decades that have passed since he gave it—remain fundamental. And, as I argue below, the conclusion he derived, though not the argument from which he derived it, remains valid as well.

Sweezy's essay, written in the 1960s, was succeeded by two lines of argumentation, that of Harry Braverman and his followers and that of the labor segmentation school. The first implicitly rejected Sweezy's argument and conclusion.\* The second altered his argument to arrive at essentially the same conclusion.

The argument of Braverman<sup>7</sup> and his followers<sup>8</sup> is too well-known to require lengthy review here. But we may observe that Braverman's emphasis on de-skilling as the essential and dominating element of modern technical change results in a factual claim exactly opposite that which Sweezy made. In place of Sweezy's "highly differentiated" proletariat, Braverman declares that [t]he tendency of modern capitalist employment [is to create] a vast mass [that] is occupied on a less and less differentiated level of general labor . . ."<sup>9</sup>

Braverman argues that modern technology, through de-skilling, operates on the whole range of dissimilar jobs (craft work, clerical work, the service and retail trade occupations) to make them more and more similar to each other and to the classic blue-collar, operative-type jobs. De-skilling thereby tends to produce a "giant mass of workers who are relatively homogeneous as to lack of developed skills, low pay, and interchangeability of person and function. . ."<sup>10</sup>

De-skilling is profitable for employers, according to Braverman, for two principal reasons (and possibly a third as well). First, there is a *wage effect*. De-skilling permits employers to use lower-wage workers, because lower-skill workers command lower wages in the labor market (both because they are in a weaker bargaining position and because there is a smaller training investment required). So de-skilling reduces the employer's wage bill. Second, there is a control or *work-intensity effect*. De-skilling increases the employer's power in

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\*It is instructive in this regard that Sweezy's essay is nowhere mentioned or footnoted in Braverman's book, despite Braverman's treatment of exactly the issues raised by Sweezy. It seems unlikely that Braverman was unaware of this essay.

the labor process, partly because lower-skilled workers can more easily be replaced by substitutes from the reserve army and hence are more vulnerable to being "driven"; and partly because de-skilling permits employers to monopolize knowledge of production. Third, there may be an additional benefit from de-skilling, implied but never carefully treated by Braverman, the *efficiency effect*. Some de-skilled technologies may simply be more efficient (where efficiency is properly defined, the labor input being measured in work intensity rather than just for labor hours) than technologies using more skills.

The net result of these various effects of de-skilling is, according to Braverman, that de-skilling is profitable. Hence, "modern industry" in the twentieth century is exactly paralleled in consequence (although somewhat changed in its occupational content) to "modern industry" in the nineteenth century; Sweezy's distinction between an "early period" and a "late period" of modern industry is implicitly denied; and Marx's original analysis remains valid.

However, placed in the context of the fundamental question which Sweezy raised—why have the working classes in the advanced countries not effected a transition to socialism?—Braverman's analysis provides an embarrassment of riches. If, indeed, as Braverman argues, the fundamental conditions pushing the working class towards revolution were *not* reversed, then what happened to the predicted revolution? Recall that Sweezy's argument was exactly a defense of Marxian theory against the apparent empirical falsification of it:

If we accept [my] general propositions about the direct and indirect effects of modern technology on the composition and character of the working class, must we conclude that Marx's theory of the proletariat has been refuted? I do not think so. His theory in fact dealt with the early impact of machinery on the proletariat, not with the longer-run consequences of the machine technology for the proletariat. One might perhaps complain that Marx did not attempt to develop a more comprehensive theory; and one could argue, I think persuasively, that he certainly could have done so. Indeed, from many remarks scattered throughout his writings, it would probably be possible for a follower of Marx to construct a more or less systematic theory of what the future held in store for the proletariat if capitalism should survive the period of modern industry. But this is not the occasion for such an effort, and the fact that Marx himself did not make it provides no justification for denying the validity of the theory he did put forward *within the limits of its applicability*.<sup>11</sup>

Braverman's analysis provides us with no answer to the fundamental conundrum that Sweezy raises. Of course Braverman early-on stated his

famous disclaimer that "No attempt will be made to deal with the modern working class on the level of its consciousness, organization, or activities."<sup>12</sup> but this hardly eliminates the problem. If we accept Marx's claim that capitalism produces its own gravediggers, and if we accept Braverman's claim that modern capitalism no less than its nineteenth century predecessor creates a "less and less differentiated" (and by assumption more revolutionary) working class, must we not deny the political experience of the working classes of the advanced countries in the twentieth century?

An alternative approach is that of the labor segmentation school.<sup>13</sup> After no more than a decade of development, some might say, this approach has re-invented Sweezy's basic idea, albeit with a different argument.

The essential point of this work is that accumulation always proceeds within a definite institutional and social setting, or what we call the "social structure of accumulation." How accumulation shapes the working class, and whether technological progress or other economic forces push toward an increasingly differentiated or increasingly homogenous working class, depends, then, on the interaction between accumulation and this social structure of accumulation.

This approach immediately distinguishes itself from Braverman's approach in at least one important way. It becomes nonsensical to state *a priori* that "no attempt will be made to deal with the modern working class on the level of its consciousness, organization, or activities." These elements are central aspects of the dialectic between accumulation and the social structure of accumulation.

How, then, does the segmentation approach deal with the questions raised by Sweezy? I will first sketch a general outline of our approach, then turn to the specific issues of technology and the working class.

A social structure of accumulation is a specific constellation of institutions, laws, and social practices which provides the setting in which accumulation occurs. Accumulation, by contrast, is the micro-economic process of profit-making and re-investment.

For reasons described elsewhere, social structures of accumulation tend to be long-lived.<sup>14</sup> We argue that since the rise of capitalism in the U.S. in the early nineteenth century, there have been three social structures of accumulation. The second and third of these, which will be of concern to us here, may be dated roughly as follows:

	<i>Period of Exploration</i>	<i>Period of Consolidation</i>	<i>Period of Crisis</i>
SSA-II	1870's-90's	1900-1930	1930-1940's
SSA-III	1930-1940's	1945-1973	1973-present

As we see, a period of "exploration" (and "crisis" for the preceding SSA) begins the life cycle of a social structure of accumulation. During this time, the crisis of the old social structure of accumulation and incompleteness of the new one hinders accumulation and creates a "social crisis." This social crisis (e.g. the 1890s, 1930s, and 1970s-80s) is only resolved when a new and viable social structure is, by whatever means, established; this ushers in the "period of consolidation."

Consolidation is the time when the social structure of accumulation establishes a favorable setting for accumulation: institutions tend to be stable, profit and investment opportunities are bright, and accumulation tends to be rapid (e.g. the long booms of 1898-29 and 1948-73).

Crisis again reappears when the social structure of accumulation can no longer sustain or organize favorable conditions for accumulation. Such a crisis might occur either because the very success of the preceding boom has eroded the existing institutions or because of other reasons.

Thus we see that while social structures of accumulation tend to be long-lived, they are by no means permanent features of our society. This "long-livedness" aspect has immediate implications for explaining the long-swings in the macro-economy, and it is this aspect that has attracted the most attention.<sup>15</sup> However, it is also true that the character of each social structure of accumulation is distinct, and this second aspect provides insight into the questions raised by Braverman and Sweezy.

The second social structure of accumulation, that which was consolidated around the turn of the century and provided the context for the boom of 1898-1929, grew out of a decisive capitalist class victory.\*

\*The period of exploration for SSA-II was exactly the years of the Haymarket, Homestead, and Pullman battles, and the crushing of factory-based craft unions. Employers, especially those outside of construction, entered the new century more clearly free of union encumbrances than they had been in a long while.

The dating and dimensions of SSA-II are ambiguous and remain to be better defined by future research; this ambiguity does not, however, much affect the *labor-capital relations* aspects of SSA-II as described above.

The ambiguity derives from the two-fold nature of the class struggles surrounding the consolidation of SSA-II: capitalists against workers; and big capital against small capital. The first conflict was decided relatively early, i.e., the 1890s. The second conflict was decided rather late, i.e., 1915-1919.<sup>16</sup> A further complication was the lack of a hegemonic power internationally, declining Britain not yet having been replaced by the rising U.S.

These ambiguities, which would be essential parts of a complete analysis of SSA-II, need not concern us for the more limited analysis of labor aspects attempted here.



This capitalist victory did not extend to all lines of employments—the construction trades, printing, mining, and other production industries. Such a harsh victory had to be defended nearly constantly, and it was: in steel in 1909; in many industries under (for capital) the more difficult circumstances of the war; and most dramatically, in the 1919 steel strike, a decisive re-affirmation of capital's victory. Still, despite these qualifications, the capitalist victory brought a tremendous increase in the power of capital (especially, of course, after 1919).

This class victory was reflected and reinforced in the political sphere, where national capitalists, operating through the "reformed" Republican Party, won the watershed election of 1896 and came to dominate national politics for the succeeding several decades. Harding's victory and the "Return to Normalcy," coming in the same year that the great Steel Strike was finally broken, symbolized the comprehensive character of capital's class victory.

Capital was therefore free to introduce on the shop and office floor new technology and a new division of labor much as it pleased. Constrained only by the larger market and to a minimal degree by worker organization, employers could initiate technical or organizational changes in production and simultaneously re-structure wages so as to complement and reinforce these changes. This was the glory age of Fordism and technical control, in all its organizational, technical, and wage aspects.

The third social structure of accumulation (SSA-III) was explored and developed during the period 1934-47 and provided the context for the long boom of 1948-73. It was, in sharp contrast to SSA-II, built on class compromise rather than class victory. The great working class victories of the 1930s, although they could be curtailed by the conservative reaction to follow (e.g. Taft-Hartley), were so powerful that they could not be entirely reversed.

Out of this decade and a half of intense class struggle emerged a compromise, often termed the "labor accord." Industrial unions (the CIO) were accepted as a permanent feature of the economic landscape, and the elements of what bourgeois labor experts began to term "modern industrial relations" appeared: union recognition; pattern bargaining; regular increases in real wages tied loosely to productivity gains; grievance procedures; seniority-based job security and job-bidding rights; restriction of union political activities; elimination of the Communists and other radicals from union leadership; and the unions' acceptance of managements' right to "run the business."

The labor accord established the conditions for the development of bureaucratic control of work, both in the unionized industries and in those non-union firms susceptible to and therefore fearful of unionism. Great corporate resources and effort were invested in developing alternative methods to organize, motivate, control, and discipline workers. This new context greatly increased the costs of earlier methods (e.g., Fordism and technical control), which had been based on early or frequent reliance on the reserve army

sanction. Greater emphasis was placed on raising or maintaining work intensity by eliciting, rather than directly compelling, work effort. To do so, employers tended to turn more towards internal stratification of their labor forces, creating job ladders, finely-graded wage scales, career paths, seniority-based wages and job allocation, and profuse occupational categorizations.

As in SSA-II, this dominant set of relations in SSA-III did not extend to all employments; indeed, the incomplete nature of these relations was considerably greater than in SSA-II. The compromise or accord did not extend to all those workers in industries or occupations not already unionized at the outset; thus, some two-thirds of the non-agricultural wage labor force were excluded.<sup>17</sup> Those excluded could be grouped, broadly, into workers engaged in clerical work, in the small-business periphery, in the South, and in the public sector. Of these, only the public sector workers managed to organize in large numbers and force their entry into the accord.

The incomplete nature of the accord combined with racism and sexism to produce a system of segmented labor markets. These forces acted to exclude from "accord-governed" or what came to be called "primary" jobs the rapidly growing numbers of blacks and women who entered the wage-labor force during these years. The segmented labor markets—distinct markets for jobs organized differently, with different levels of wages and different returns to skills, education, and experience, and the like—constituted a crucial part of SSA-III.

SSA-III, then, was built on a class compromise, characterized by a "labor accord" covering one segment of the working class (and its employers) and producing, more generally, a system of segmented labor markets. This compromise, even as it restricted unions, also imposed constraints on capitalists. These relations underlay the great postwar boom.

With this brief overview of the segmentation approach we are in a position to return to the issues raised by Sweezy. I will focus here on the question of whether modern capitalist employment tends to produce a more "highly differentiated" proletariat (Sweezy) or a "less and less differentiated level of general labor" (Braverman).

From the perspective of segmentation theory, we can see that no overall *a priori* judgement is possible, but rather the answer to this question depends on whether the social structure of accumulation is permissive of de-skilling, work degradation, and the substitution of low-wage for high-wage workers, or whether it is not. "Permissive" in this context must be understood to mean that, given the institutional, legal, and social practices setting within which capitalists make their decisions, they find it more profitable to de-skill, degrade, and use low-wage workers than to follow some alternate strategy.

To examine this point further, we may contrast the permissiveness to Braverman-type de-skilling of SSA-II to that of SSA-III. Clearly, SSA-II created a situation that was extraordinarily permissive to de-skilling. Because

of the decisive capitalist class victory, employers were free to re-order the organization of work, re-assign and re-classify workers, introduce new techniques and machinery, and freely replace workers. Moreover, pay scales could be quickly adjusted (reduced) to fit the newly de-skilled work. Finally, to the extent that the bosses' control on the shop floor rested on early and frequent resort to the reserve army sanction, such disruption and reorganization of production strengthened shop-floor control.

It is little wonder, then, that the period of SSA-II should have produced, as its industrial ideologist, F.W. Taylor. Indeed, what is most interesting about Taylor is not what Taylor explained about the world of work but rather how the world of work explains Taylor. Or more precisely, how the world of work explains why Taylor's efforts met with such an enthusiastic and receptive audience, for the practical results of his work were virtually nil. But note the close parallel: Taylor performed his (now) famous "experiments" with the lathe operators and Schmidt during the 1880s and 1890s, the period of exploration for SSA-II. His enormous fame (and that of Taylorism and his followers) developed soon after the turn of the century and endured most of the period of consolidation for SSA-II. But during the late 1920s and the Depression, interest in Taylorism collapsed, as management theorists, work sociologists, and others turned to ideas that would eventually lay the basis for SSA-III.

In contrast, the labor accord of SSA-III provided relatively meager grounds for de-skilling and the introduction of low-wage workers. Consider first the wage aspect. The compromise arrangement which recognized unions (or, in firms like IBM and Polaroid, the necessity of keeping unions out) required employers to provide rising real wages. In fact, wages rose in a double sense: the industry or firm's average wage tended to rise with the growth of labor productivity, and the wages offered to each worker rose as he (and much less frequently, she) gained seniority. Such a system produced relatively rigid wage scales, making downward adjustments when de-skilling occurred difficult (costly) to implement.

Since employers were forced to pay the negotiated wages, the first principal benefit of de-skilling (the wage-effect, or being able to use low-wage workers) was undercut. Technical change continued to play a critical role; but now its role was reversed. Rather than technological change resulting in falling wages as wages chased declining skill levels, technological change became the means for capitalists to push up productivity levels, as productivity chased the rising wages. The accord created incentives for employers to introduce technical change that would raise productivity sufficiently to "pay for" the high and rising wages.

Similarly, the system of bureaucratic control over production ran contrary to the other principal benefit to employers from de-skilling, namely, the work-intensity effect or increased control over the work itself. Bureaucratic control

did not fit well with a strategy of de-skilling and creating a giant mass of relatively homogenous workers. Incentives to elicit effort had replaced (or provided a sophisticated improvement on) the drive system. Rewards for seniority were virtually always for employer-specific seniority, so they constituted both a carrot and stick for greater work intensity and company "loyalty" rather than a return on productivity-enhancing "experience." Such incentives tended to replace first-resort use of the reserve army sanction. Hence the de-skilling strategy—making workers skill-less in order that they would also be powerless; easily substitutable for from the reserve army; and defenseless in the face of "driving" bosses—no longer fit the institutional context of the labor accord.

One can easily overstate this point, and we should not fall prey to the management theorists who like to depict supervisors as merely "coordinators" or "production leaders" of happy workers. Employers retained the ultimate authority to fire workers, and bosses continue to press for high productivity through high work intensity. Workers continued, often in bold and innovative ways, to resist management attempts at speed-up.

Nonetheless, real changes did occur. For example, if one compares the Ford plants of the 1920s and the 1950s, attention turns from Harry Bennett's thugs to the problem of worker alienation. If one compares the issues and results of the 1919 and 1959 steel strikes, it is difficult to avoid the fundamental difference between SSA-II and SSA-III. If one compares newly-emerged major manufacturing concerns (the kind of firms least constrained by traditional labor practices and hence most able to institute new relations), say GE in SSA-II and IBM in SSA-III, the strategies for control over work, wages, and employment policies emerge in sharp contrast. The point, then, is simply that employers under SSA-II experienced vastly different circumstances from those encountered under the labor accord of SSA-III, and, not surprisingly, this affected their interest in and eagerness for de-skilling.

We should note that the accord did not necessarily interfere with the third (possible) benefit associated with de-skilling, and this may have left a modest stimulus to de-skilling under the accord. The third benefit to employers is the efficiency effect, created when de-skilling occurs as a necessary but not necessarily desired by-product of the introduction of more efficient technology. To the extent that more efficient technologies require de-skilling, workers and employers under the accord may have shared an interest in introducing these technical changes and sharing the productivity bonus. (We must say that they "may have" shared an interest, because de-skilling for whatever reason brings other consequences, e.g., increased tedium on the job, increased vulnerability to replacement). Indeed, the accord established collective bargaining and joint procedures for re-defining jobs precisely as mechanisms to arbitrate the consequences of such technical change. Note that in this case, we should expect de-skilling to be accompanied by rising, not falling, wage levels.

Still, the importance of the efficiency effect by itself as a stimulus for

de-skilling is quite unknown but likely to be weak. In practice the effects are likely to be almost inherently intermingled. Understandably, employers had an incentive, whenever trying to introduce de-skilling-type technical change, to persuade the workers that the employers' only interest was the efficiency effect. And just as understandably, workers had reason to resist all de-skilling-type technical change, even those accompanied by the strongest management promises, for fear that they would suffer a potential or long-term wage effect or work-intensity effect.

Note that while the labor accord of SSA-III was quite hostile to de-skilling, the relations governing jobs outside the accord in SSA-III were quite permissive to de-skilling. As noted, the accord did not extend to clerical work, jobs in the competitive periphery (especially service-sector employment), the South, and public-sector employment. In all of these areas, though less so for public-sector employment, the logic of de-skilling continued to be valid.

Braverman himself implicitly acknowledged this more partial and conditional view of de-skilling by his choice of de-skilling examples. Although one can find cases of the de-skilling of a particular occupational category within nearly every industry, it is striking that virtually none of his post-1945 evidence derives from the core industries covered by the labor accord: steel, rubber, autos, heavy appliances, aluminum, petroleum, mining, aerospace, trucking, railroads, utilities and communications, electrical products, office machinery, etc.<sup>18</sup> Moreover, he makes frequent reference to industries of the competitive periphery such as furniture making, sheet-metal shops, construction, bread-baking, wearing apparel, and so forth. And of course his most telling cases, and they are truly convincing, deal with clerical work and retail and service occupations, areas outside of the accord.

As J.K. Galbraith once modestly observed when admitting a qualification to his thesis, "a strong case is not made stronger by overstatement." The case of type-setting and printing in general, mentioned by Braverman and further developed by Zimbalist, provides one example of an occupation that was de-skilled in the face of a strong union and the clear conditions of the labor accord. The machine tool industry, with its relatively small average firm size but substantial unionization, provides an ambiguous case. Telephone operators and installers may currently, to their detriment, be providing another. The point is not that such cases cannot be adduced, but rather that when added up they do not constitute the central tendency of the shaping of the labor force under the labor accord.

We may summarize this point as follows. An institutional setting (the social structure of accumulation) is established out of a whole constellation of organizational, technological, and class conflictual forces. It shapes the profit opportunities for individual capitalists, and thereby also imparts an overall influence in the shaping of the working class. Employers in some contexts (e.g., SSA-II or the non-accord areas of SSA-III) may find profit opportunities

and competition pushing them to introduce de-skilling and thereby contribute to a progressive homogenization of the labor force. This is the process which Braverman so brilliantly analyzed. However, in other contexts (e.g., under the labor accord), profit opportunities and competitive forces may push employers towards greater stratification, re-skilling as well as de-skilling, and other ways of organizing production that effectively contribute to a progressively more differentiated labor force. Under SSA-II, there appears to have been a substantial trend towards homogenization; under SSA-III, this trend was reversed, leading to increasingly segmented labor.

So far we have limited our attention to those influences shaping the working class that emerge from a fixed or given industrial or occupational structure. Yet Sweezy, Braverman, and others have recognized the importance for the shaping of the working class of changes in the occupational or industrial structures. Indeed, the growth of clerical work and the service occupations in this century is cited by both Sweezy and Braverman as fundamental. However, they come to diametrically opposed interpretations of this phenomenon.

Both Sweezy and Braverman argue that the rapid growth of productivity of production workers in the industrial sector of the economy (combined with an unstated but necessary assumption that the growth in demand for industrial commodities is less rapid) has produced a diminishing share of total employment in this sector. From here, however, their interpretations diverge.

Sweezy interprets the compositional effect as creating "a great variety of new categories of jobs." This in turn leads him to claim that "the proletariat is [again] highly differentiated; and once again occupational and status consciousness has tended to submerge class consciousness."<sup>19</sup>

Braverman, on the contrary, sees the growth of clerical work and the service occupations and industries as a form of indirect de-skilling and simply contributory to the overall tendency towards homogenization. He is quite correct in emphasizing that the tendency towards homogenization of the working class may occur just as well because workers are shifted from higher-skill to lower-skill occupations or industries as because skill requirements within particular occupations or industries are reduced. The latter is de-skilling proper, the former is de-skilling through a compositional shift. And for Braverman, the compositional change simply reinforces de-skilling proper in producing the overall tendency towards the de-skilling and degradation of labor.

The contribution to de-skilling of the changing composition of employment has been confused for several reasons. Note first that the rise of large numbers of low-skilled jobs in clerical and service work does not by itself provide evidence of an overall trend towards de-skilling. Rather, what must be shown is that the skill-mix of the (growing) non-industrial sectors is less intensive or more unskilled-intensive than the skill-mix of the (shrinking) industrial sector. On this point the evidence is quite mixed and, as one might imagine, depends



greatly on how one defines and ranks the various skills and types of workers involved.

With one set of definitions, the impression that the compositional shift contributes to de-skilling follows from a definitional asymmetry. It is quite traditional to include, among industrial workers, the categories of craft and skilled workers, yet to exclude from service and clerical workers the equivalent groups of more skilled employees, i.e., technical, professional, and lower-level supervisory personnel.<sup>20</sup> Such a procedure, in the face of growing service and clerical employment, necessarily produces "de-skilling" by definition alone.

A further confusion is the attempt to use wage data to answer the de-skilling question. While it is clear that the compositional shift results in lower-wage work, we do not know (unless we are strict neo-classicals) if the lower wages reflect lower *skills*; or whether they reflect the lesser *bargaining power* of those groups (especially women and minorities) entering those jobs, compounded perhaps by a lower profit rate in the service and clerical firms. This latter possibility, in turn, involves a tricky problem of skills definition. If, for instance, the arguments that feminists have made on behalf of the "comparable worth" doctrine are accepted, i.e., that women with skills comparable to (but different from) those of male workers are systematically underpaid, then the wage evidence is much less favorable to Braverman's thesis.

Yet what was truly important about this compositional shift in employment is that it was a shift from inside the labor accord to outside it, that is, from a context of restrictive of de-skilling to a context permissive of de-skilling. The particular labor processes involved (clerical and service work) do not "naturally" or "inevitably" use low-skill or low-wage workers; rather, the workers in these occupations or attracted to them had no institutional or other means of defending or attaining better conditions. Their powerlessness left employers free to re-divide their labor processes and make full use of the low-wage labor supplies available, and hence workers were subjected to the degradation which Braverman describes.

There has always been a tension surrounding the extent to which Volume I of *Capital* is to be interpreted as a *general* analysis, good for capitalism as a system; and the extent to which it is a *specific* analysis, applying a more general theory to the particular case of nineteenth century European or British capitalism. This tension is particularly evident in Marx's analysis of the labor process, with its emphasis on de-skilling, the growth of an increasingly homogenous proletariat, and the increasing immiseration of the working class.

Sweezy chose to interpret those themes as specific analysis, and held that this analysis is correct "within the limits of its applicability."<sup>21</sup> Braverman chose to see these themes as part of the long-term logic of capitalism and hence, if the theory is correct, equally as valid for the twentieth century as for the nineteenth. The labor segmentation approaches sides with Sweezy, at least the Sweezy of "Marx and the Proletariat," to argue for a richer, less linear, and more

contingent and historical account.

This essay has not dealt with the last part of Sweezy's answer to his big question—his assumption that a more differentiated or segmented working class is likely to be more occupational-and-status-conscious than class-conscious, and therefore less "revolutionary." This is obviously a very complicated issue, and cannot be dealt with here.<sup>22</sup>

Yet if we provisionally accept Sweezy's assumption, the segmentation approach both provides a more compelling framework for Sweezy's answer and yet retains the essential wisdom and judgement of that answer. It is a framework in which "history matters," in the sense that class conflict as well as technical change influences capitalist development. This history thus creates the very context in which accumulation occurs and thereby shapes the nature as well as the speed of the transformation of the labor.

#### Notes

1. "Marx and the Proletariat," in Sweezy, *Modern Capitalism and Other Essays*, New York: Monthly Review Press, 1967, pp. 147-148.
2. *Ibid.*, p. 163.
3. *Ibid.*, p. 157.
4. *Ibid.*, pp. 164-165.
5. *Ibid.*, p. 160, emphasis added.
6. *Ibid.*, p. 158.
7. Harry Braverman, *Labor and Monopoly Capital*, New York: Monthly Review Press, 1974.
8. See in particular Andrew Zimbalist, editor, *Case Studies in the Labor Process*, New York: Monthly Review Press, 1979, and Dan Clawson, *Bureaucracy and the Labor Process*, New York: Monthly Review Press, 1980.
9. Braverman, *op cit.*, p. 354.
10. *Ibid.*, p. 359.
11. Sweezy, *op cit.*, p. 161, emphasis added.
12. Braverman, *op cit.*, p. 27.
13. See in particular David Gordon, Richard Edwards, and Michael Reich, *Segmented Work, Divided Workers*, New York: Cambridge University Press, 1982.
14. This entire section restates propositions argued and defended at length in the study cited in footnote 13.
15. See *Ibid.*, and also Samuel Bowles, David Gordon and Thomas Weisskopf, *Beyond the Waste Land*, New York: Doubleday, 1983.
16. See Richard Edwards, "Stages in Corporate Stability and the Risks of Corporate Failure," *Journal of Economic History*, June 1975, and *Contested Terrain*, New York: Basic Books, 1979, chapter 4.



17. In many cases, however, the implicit threat of unionism induced employers "voluntarily" to provide working conditions similar to those achieved by unionized workers; for one description, see Edwards, 1979, chapter 9.
18. He does discuss chemicals, but he limits his attention to the continuous process monitor, a small proportion of chemical industry employees.
19. Sweezy, *op cit.*, pp. 159-160.
20. See Braverman, *op cit.*, chapter 15.
21. Sweezy, *op cit.*, p. 161.
22. For one recent treatment, see Charles Sabel, *Work and Politics*, New York: Cambridge University Press, 1982.

## A Marx, Keynes, Schumpeter Centenary and the Editors of *Monthly Review*

Andre Gunder Frank

1983 marked the centenary not only of the death of Marx but also of the birth of Keynes and Schumpeter (although strangely only the first of these seems to be as widely commemorated as their work and influence deserve). Paul Sweezy and Harry Magdoff (along with their friends and comrades in literary arms, Paul Baran and Leo Huberman, who have passed on) are probably the inheritors who have most creatively combined and developed the inheritance of these three greatest *political* economists of this century. These editors of *Monthly Review* are best known as Marxists and share his historical materialist approach, analytical critique of political economy, and political commitment to not only interpreting but also to changing the world through the motor force of class struggle. But the centrality of the economic surplus as well as surplus value in their analysis, especially of the role of the state in the economy, also shares the central underconsumptionist (or in Marxist terms surplus resolution) preoccupation of Keynes. Their constant concern with the permanence of the business cycle (which Schumpeter termed like the heartbeat as the essence) of capitalism maintains the concern of Schumpeter, whose principal assistant and personal friend Sweezy was at Harvard. Moreover, the *Monthly Review* political economists have continued to pursue the Marxian and Schumpeterian interest in imperialism and the Keynesian one in neo-mercantilism while most other economists abandoned it in the post war era. Finally, Sweezy and Magdoff have maintained the central attention that Marx, Keynes and Schumpeter shared about the possible inherent limitations and self-destruction of capitalism—while most other Marxists, Keynesians and Schumpeterians in theory and/or in fact abandoned this problematique as of no further interest during capitalism's post-war prosperity.

Thus Sweezy and Magdoff (and while they were alive Baran and Huberman) and through their writings the countless thousands or indirectly even millions whom they have influenced have been eclectic amalgamators and innovators in the best traditions of Marx, Keynes and Schumpeter put together. As a result they have, of course, been denounced as renegades and excommunicated or simply ignored by the religious followers of each of the separate canonical Marxist, Keynesian and Schumpeterian schools. The jealously guarded inde-

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A revision with special references to *Monthly Review* and its editors of an essay entitled "Real Marxism is Marxist Realism" in the collection of the author's essays *Critique and Anti-Critique* (Praeger, 1984).

pendence of thought and action of the editors of *Monthly Review* and that of the journal itself was often difficult to sustain and to defend during the apparently successful heyday of Marxist and Keynesian orthodoxies. Nevertheless, this now traditional independence received its just rewards as official Marxist dogmas were unseated by events in (and between) the Soviet Union and China as well as elsewhere and "Keynesian Chickens came home to roost" (to borrow a *Monthly Review* editorial title) with the economic crisis of the 1970s, which orthodox Keynesians had declared to have been made impossible by the supposed success of Keynesian policy itself. Of course, this crisis may also be said to vindicate Schumpeter's analysis of Kondratieff long waves; but ironically Sweezy and Magdoff will not accept this vindication, because they part company with Schumpeter precisely in their denial of the existence of any such long waves.

It may be particularly appropriate then to honor the editors of *Monthly Review* this year by attempting another independent evaluation of the relation between the analytical methods and political objectives of Marx, which Sweezy and Magdoff still share on the centenary of Marx's death and to combine it with some references to the work and heritages of Keynes and Schumpeter on the 100th anniversary of their birth, and to throw occasional glances along the way at the sometimes changing *Monthly Review* positions on some of the issues involved.

In commemoration of the 100th anniversary of the death of Karl Marx, I would like to examine the continued relevance of Marx and Marxism today by concentrating on its principal ends and means and the problems they pose.

The principal objective of Marx and Marxists has been to change the world for the better ("Heretofore philosophers have only interpreted the world; our objective is to change it"), especially to eliminate the exploitation, oppression and alienation of man (and woman) by man. The fundamental method of Marx, adhered to by Marxists in name if not always in practice, has been historical materialism ("it is not the consciousness of men that determines their existence, but on the contrary it is their social existence which determines their consciousness.'). The practice of historical materialism requires scientific "concrete analysis of concrete reality" (Lenin) and not ideological adherence to sacred texts or political allegiance to received doctrine. That is precisely what the editors of *Monthly Review* have excelled in, and they have been rather exceptional in doing so. The combination of this method and objective means using historical materialist analysis to liberate man and his spirit. But it also means that man makes his own history, subject of course to material limitations. However, the combination poses a long list of yet unresolved and perhaps insuperable dialectical contradictions and interpenetration of opposites. We propose here to examine some of them.

## I. Marxist Objectives

The objectives of Marx and Marxists pose an immediate contradiction. 100 years after his death and 135 years after publication of the *Communist Manifesto*, one third of mankind is ruled (more than it rules itself) in the name of Marx, his objective and his method. Yet this numerical success is less than Marx had predicted on the basis of his historical materialist analysis and had hoped for in terms of his objective. Moreover, this change has occurred not in the materially advanced parts of the world where his historical materialist analysis led him to expect it but rather where, at least until just before his death, he least expected it: Russia, China, and the so-called Third World. The Marxist objective is nonetheless still a beacon of hope in much of the world, although more so in the South than the North and arguably more so in the West where it is not established than in the East where it is. This Marxist hope is now weaker in the East and also the North because of the East's failure so far—in the name of Marx—to eliminate exploitation, oppression and alienation. Despite these shortcomings the hope of attaining Marxist objectives remains stronger in parts of the South and some sectors of the West. Sweezy, Magdoff (as well as Baran and Huberman) and *Monthly Review* have contributed no small part to this strength through the laser of their analysis and the beacon of their hope, as well as through their steadfast refusal to accept knowingly the shortcomings and still less the abuses of Marxism in official socialist quarters. These shortcomings in the achievement of Marxist objectives may be attributed to the continued limitations of material development of the productive forces and of Marxist consciousness and materialist analysis, and to the contradictions between them. We propose to analyze the shortcomings and their causes with the aid of Marxist historical materialist analysis.

## II. Marxist Method: Historical Materialism Around the World

### A. In the West

Marx and his followers up to Lenin developed the method of historical materialist analysis on the basis of capitalist development in the West, especially England, and for use in the study (interpretation) and change (transformation) of the same. This derivation and use of Marxist historical materialism contradicts (or is contradicted by) the development of capitalism on a world scale. This global development was recognized and commented upon by Marx and Lenin but hardly incorporated in their own analytical models (Marx's volume I of *Capital* and Lenin's *Development of Capitalism in Russia* and even his *Imperialism, Highest Stage of Capitalism*). Since their writing, the integration and interdependence of all parts of the world in a single historical

process of world capitalist development has become so strong and immediately determinant—of the limitations under which men make their own history—that historical materialist analysis now *must* take much greater account of it than the early Marxists did and many later Marxists still do. The latter, counter to the method and objectives of Marx and Lenin themselves, proposed a would-be Marxist doctrine supported by quotations from the sacred texts which is contradicted by historical developments and material experience.

The editors of *Monthly Review* through the journal and in their own right as authors, on the contrary, have distinguished themselves by always advancing this *world* capitalist Marxist analysis, from Sweezy's *Theory of Capitalist Development* and his contribution to the debate on the *Transition from Feudalism to Capitalism*, via Baran's *Political Economy of Growth*, to Magdoff's *Age of Imperialism* and *Imperialism: From the Colonial Age to the Present*, and all of their embrace of the study of Third World dependence. Ironically, this world view was more conspicuous by its absence in Baran and Sweezy's *Monopoly Capital*, which concentrated perhaps excessively on the United States, and advanced a partly orthodox Keynesian underconsumptionist-stagnation argument.

Now the present world economic crisis developed out of deepening structural disjunctures within and between the West, East and South. The crisis affects all countries—be it differentially so—in each of these parts of the world; and any resolution of the crisis will involve far-reaching economic, social, cultural, ideological and political change in most parts of the world. Some of this change is already manifest in an emerging new international division of labor, new technological developments, and the renewed decline of a hegemonic power, the U.S., relative to challengers elsewhere (primarily by other capitalist powers, like Japan, and not from the socialist world). This historical development contradicts what many on both the left and the right like to claim in erroneous references to the supposedly greater military might, political power and ideological superiority or offensive of the Soviet Union. Change will also be promoted by heightened social, cultural and political consciousness and earthshaking mass movements under banners of nation, religion, race and class—and some of these also in the name of Marx. Such momentous transformation of the world and popular consciousness is properly the object of a Marxist historical materialist analysis which recognizes that the world as a whole is greater than the sum of its increasingly differentiated parts. Notwithstanding the often parochial limitations of Marxist historical materialism, which was not developed in this world-wide context or for such world-embracing purposes, its method still seems to offer more analytic capacity than rival economic, political and socio-cultural approaches and analyses, and there is perhaps no better proof of this capacity than the pages of *Monthly Review* and the writings of its editors.

For instance, relying on historical materialist analysis Marxists were the first

to predict, announce and analyze the current world economic crisis, while bourgeois economists and publicists still remained unaware of it, or denied that there was one. Here also, *Monthly Review* and its editors Paul Sweezy and Harry Magdoff have been in the forefront of the prediction and analysis of the development of this crisis, particularly in their editorials and other articles collected in *The End of Prosperity*, *The Deepening Crisis of U.S. Capitalism*, *The Dynamics of U.S. Capitalism*, and *Modern Capitalism and Other Essays*. Of course, Schumpeter and Keynes would not have been surprised by this new economic crisis, which "Keynesians" completely failed to foresee. Ironically, many other Marxists and especially those regimes governing in the name of Marx in the socialist countries also failed to see the coming of this world economic crisis and still less its likely effects on them. They were literally banking on the continued prosperity of the West when they embarked on their major drives to import technology from the West in the early 1970s hoping to pay for it with subsequent exports to the West. The consequence was the socialist countries' balance of payments and debt crises since 1980 and the resulting political events in Poland (so far and still others to come).

### B. In the East

The so-called socialist countries and those everywhere who speak for them in the name of Marx are often exempt from the above-named contradictions by their own declarations, though not by Sweezy; but ironically world historical development and its historical materialist analysis contradicts them perhaps most strongly of all. The recently accelerated reintegration of the socialist economies into the capitalist international division of labor—not only through trade relations of exchange but equally through labor process relations of production—has rendered these economies vulnerable to the far-reaching effects of the present crisis in the capitalist West. The resulting pressures and influences on the economies, societies, politics and even the ideological consciousness in the socialist East completely contradict Stalin's thesis of two world markets and social systems, one capitalist and another socialist. On the contrary, the so-called socialist world has not escaped from the historical process of world capitalist development, from the operation deep within the socialist economies of the capitalist world's law of value, or from the use and exchange of labor power as a commodity, which is the historical materialist basis of the continued exploitation, oppression, and alienation of man (and woman) by man. According to those who speak for the supposedly socialist world in the name of Marx, it has achieved or at least is in the transition to the traditional Marxist objectives. None of these claims are true in fact; all of them are contradicted daily by the material experience or social relations of the masses and especially the proletariat and peasantry there; and all of this

development is subject to Marxist analysis of historical materialism. Ironically, those who speak in the name of Marx in these supposedly socialist countries (e.g. Poland), are the least given to undertaking such historical analysis of their own societies and of the material basis of the consciousness of the proletariat. The latter has been availing itself of nationalism and religion to promote the class struggle of and for itself in a supposedly post-revolutionary socialist country (while Marx had prophesized and expected such struggles—so far largely in vain—only in capitalist countries). A century after Marx's death then, there is a need for a more real(istic) Marxist historical materialist analysis of the socialist countries within the world capitalist economy, all the more so as Marx and Lenin did not trouble to develop Marxism for this purpose. The need is urgent since those who speak in his name in these countries do not seek to overcome these limitations of classical Marxism and so fail to apply historical materialist analysis to their own societies and least of all to the material and social class basis of their own false consciousness. Here also *Monthly Review* and Sweezy have distinguished themselves in their creative application of Marxist analysis to the socialist countries; as in the essays collected under the title *Post-Revolutionary Society*, and *On the Transition to Socialism*. Although, as they were also the first to admit, their combination of the best tradition of Marxist economic analysis with Marxist political optimism sometimes led them first to accept and on further evidence to reject some supposed advances of first the Soviet and then the Chinese models of development.

### C. In the South

The Marxist historical materialist method and its use to analyze both their own societies and the development of world capitalism as a whole is more developed in the underdeveloped South than in the developed West and the Marxist East. This is another contradiction in the development of Marxism, especially in recent decades, and it deserves a historical materialist analysis. Perhaps, indeed probably, the exaggeratedly higher degree of exploitation, oppression, and alienation to which the Third World has been subject in the course of world capitalist development also led to this higher degree of Marxist consciousness, theory, and analysis among the intellectuals and significantly among some of the masses in much of the Third World.

These groups have contributed or inspired most of the major recent advances in political economic theory and analysis of modes of production, dependence, imperialism, the world system, capital accumulation, structural economic change, the authoritarian state, populist movements, and revolutionary strategy. Some of these advances have been imported by the supposedly Marxist East and anti-Marxist West. Though no one, perhaps, is a prophet at home, Baran,

Sweezy, and Magdoff are universally acknowledged throughout the Third World South as inspiring standard bearers of these Third World analytical advances of Marxism. However, this development of Marxist historical materialist analysis—a form of consciousness—in the South has not been matched by an equal development of anti-capitalist and socialist revolutionary progress in the Third World (and still less elsewhere). The reason must be sought—through historical materialist analysis—in the fundamental contradiction between the Marxist method and its objectives, and especially the material, including social, limitations on man's ability to make his own history as he pleases.

### III. Contradictions Between Marxist Ends and Means

Beyond the contradictions between Marxist objectives and accomplishments and among the uses of Marxist method, most major contradictions during the past century have been between Marxist means and ends themselves. These promise to remain major contradictions for the foreseeable future. Of course, Marx and Marxists never suggested that the world would change towards the achievement of their objectives simply by interpreting it through the method of historical materialism. For Marx and Marxists since his death, "class struggle is the motor of history." But Marxist historical materialism was to reveal both how this class struggle develops out of the contradiction between the development of the forces and the relations of production *and* how men and women—with their consciousness heightened precisely through historical materialism itself—could learn where, when and how consciously to intervene in the history of class struggle to guide and lead it to the achievement of Marxist objectives. The failure of Marxists during the century since the death of Marx to do so satisfactorily according to the ends and means he himself set out is their major shortcoming so far, and the promise that they will overcome it in the near future is not bright or credible. Perhaps the reason is to be found in some fundamental contradictions between Marxist means and ends themselves.

#### A. Contradictions in the West

In the West, for which Marxist means and ends were set out first and foremost, the method of historical materialism has not been able to lead the class struggle to a successful conclusion or scarcely even to advance it anywhere. The first major disappointment was World War I and the failure of the revolution in Germany and elsewhere outside of Russia afterwards. Thereafter came Nazism, which has been faultily diagnosed by the Communist International, World War II, and the failure of Marxist parties since. With the advance of the welfare state and bourgeois democracy, even if both are now



again threatened by the economic crisis, the Marxist dream for the capitalist West has receded further and further. Marxist parties from social democrats to euro-communists and others have been integrated into the capitalist system and coopted to help maintain and run it. Perhaps history will belatedly still prove Marx and Schumpeter right in their predictions that the very success of capitalism will lead to its own destruction, but if so then not very likely through the contradictions and processes that were classically expected, but no longer accepted by the editors of *Monthly Review*. Contemporary historical materialist analysis can reveal why: essentially because the proletariat has little reason to play the role originally ascribed to it by Marx's historical materialism. For saying so, Sweezy has often been unjustly attacked by cadres with more revolutionary optimism (or blockheadedness) than Marxist analysis.

### B. Contradictions in the East

In the so-called socialist East, especially in Europe, for which Marx and Marxists had ill prepared their historical materialist method and analysis, Marxism has become the official religion, temporarily replacing Christianity—and often science. Historical materialist analysis, especially of socialism itself, shines by its absence there.

Or else historical materialism could connect the Leninist approach ("socialism = Soviets + electricity" plus his Taylorist/Fordist time and motion studies/labor processes minus Soviets) to the continued commodification and alienation of labor, and to the Leninist integration into the world capitalist market. Marxist analysis might explain the relationship among Leninist democratic centralism (more centralist than democratic), the progress of extensive growth, and the planned obstacles to intensive growth and technological progress. Above all historical materialism has to explain how all these conditions barred socialist societies from the Marxist objectives of socialist transition to communism, if they have not guided them altogether to a new non-socialist society or arguably even back to capitalism.

But such historical materialist analysis is absent in the East. There, "Socialist realism" has given way to "real(ly existing) socialism." Significantly, Marxists in the socialist world no longer see the current crisis of capitalism as the vehicle within which the motor of class struggle might drive the world on the road from capitalism to socialism, let alone communism. As noted, they did not see the crisis coming in the first place. Recently they have expressed the sincere hope that the capitalist crisis, which damages their own real interests as well, would go away as soon as possible—so that they could get back to business as usual. Only for the Third World do these official, especially Soviet, Marxists express much hope for socialism. However, regarding the Third World, their supposedly historical materialist analyses and political

guidance have been mostly wrong, from China and Vietnam to Cuba and Chile, to India and Egypt, to Ethiopia and Somalia, Angola and Mozambique, and the many Third World countries that can remain unnamed as long as the goals of Marxist socialism still remain so distant. Marx would turn in his grave as Keynes and Schumpeter can rest in peace at the sight of these developments, many of which *Monthly Review* and their editors have submitted to both passionate and objective analysis.

### C. Contradictions in the South East

These Third World countries, including China which likes to be known as one, reveal the contradiction between Marxist methods and objectives most sharply. As noted, according to classical Marxist historical materialist analysis, the transition to socialism was not even supposed to begin outside the West at all. But it did. Perhaps this surprise could and should have been obviated by historical materialist analysis of the process of capitalist development and polarization on a world scale, which could reveal the places and times of the weak links. However, if Mao did so for China, Ho and Giap for Vietnam and Fidel for Cuba, they did so against orthodox analysis and institutional pressure from Moscow, or their revolutions would not have happened at all. For Marxist orthodoxy, the development of the productive forces and their contradiction with the relations of production in these countries were not yet ripe for revolution. But these revolutionary leaders and most especially Mao's "politics in command" approach argued and persuaded many that the development of consciousness itself could help change the material determinants of social existence. With scarcely a proletariat and on the long march over the Yenan way, Mao worked for the proletarian socialist revolution in a peasant society. When this progress faltered and was threatened by reaction in the mid-1960s, Mao launched the "cultural revolution" in a last vain attempt to save the day and develop the forces of production further by changing the relations of production through further heightened consciousness. But the cultural revolution failed, and Mao's death opened the way for a "great leap backward" (Bettelheim) to 1957 and before to pursue Chou en Lai's "four modernizations" under the stewardship of Deng Xiao Ping. Mao's politics has been bereft of command and historical materialism is back in charge—and not only in China. Sweezy and *Monthly Review* observed and applauded each of these progressive steps with revolutionary optimism. But like so many others of us, appearances sometimes masked realities. Hindsight also has obliged many agonizing reappraisals by the editors of *Monthly Review*, who have been prompter and more forthright than most in giving historical reality its due.

In Vietnam and Cuba as well as in China after their heroic achievements against the military, political, ideological and economic opposition of imperial-

ism, realist "socialism" has again replaced socialist "realism." This resulted from their inability to introduce sufficiently fast and deepgoing modifications in the relations of production and exchange—including those with the capitalist world. It resulted as well from their inadequate development of the forces of production, especially through technological change and economic restructuring. Privatization of land management and marketization of more production and trade, foreign investment and export promotion, elitization of education and other concessions to historical material reality are all the order of the day in these Third World socialist countries as they are in those of Eastern Europe. Realist historical materialism there seems to have abandoned advancing further on the road to socialism as the way to "consolidate" it and has turned instead to consolidate socialism there as the way to "advance" it. That is, this socialist historical materialism has become more conservative than revolutionary.

#### *D. Contradictions in the South*

Elsewhere in the Third World the contradiction between Marxist means and ends is essentially similar, the appearance of recent and prospective revolutionary advances notwithstanding. In the 1960s the "non-capitalist path" to socialism in Indonesia, India, Egypt, Ghana, Guinea, Mali, and arguably Algeria, Iraq and elsewhere led straight back to capitalism, as any honestly historical materialist analysis could have shown or did show. Since the mid-1970s developments in Angola, Mozambique, Guinea Cabo Verde (ex), Zimbabwe, Somalia (temporarily and then replaced by) Ethiopia (despite its oppression of) Eritrea, South Yemen, Syria, Afghanistan, Grenada, Nicaragua, and prospectively in El Salvador and Guatemala and elsewhere have heightened the fears of Washington and its friends and the hopes of Moscow and its comrades. However, these fears and hopes are largely false if past experience and present realistic historical materialist analysis are any guide. For the time being, there is little historical materialist reason to support the fears or hopes that these contemporary historical processes will lead far beyond their "non-capitalist" predecessors in the 1960s. Indeed, in some cases, the attempts externally to disconnect from world capitalism and internally to modify the domestic relations of production have not even gone as far as they did then, and/or they are already in reverse gear again. For instance, Angola never disconnected, Zimbabwe never proposed to do so, and Mozambique is already re-connecting and re-privatizing its economy. The Sandinistas in Nicaragua are suffering from severe economic limitations and political obstacles derived from the legacy of foreign debt, export dependence, and productive structure inherited from the Somoza administration and used by the Reagan administration to complement its military and political economic program to destabilize the Sandinista government. Even if Reagan hopefully

fails to do so, any realistic historical materialist analysis does not hold out a very bright immediate future. And to the extent that the future anywhere in Latin America looks positive much of the credit must go to two allies that historical materialism did not expect or until recently want: nationalism and religion.

#### *IV. Contradictions of Materialism, Nationalism and Religion*

A major contradiction deepening again between and within Marxist means and ends turns on the unexpectedly significant role of nationalism and religion. According to classical historical materialism both of these forms of consciousness would soon disappear, especially as forces to mobilize the masses, as capitalist development proceeded and all the more so under socialism. The opposite happened; nationalism and religion have subsisted and are again growing in strength even within and between the socialist countries. As consciousnesses and mobilizing forces, they have become necessary allies, yes and even the most important instruments, of those who speak in the name of Marx and seek to complement his historical materialist method to pursue his objectives 100 years after his death! What an ironic contradiction. No socialist party or movement now speaking in the name of Marx ever came to power without relying on the force of nationalism perhaps even more than on Marxism. Then Marxism as a historical materialist method of analysis was subverted and converted into an official state religion, complete with holy scriptures, doctrine, dogma, inquisition, catechism, and ritual obedience to the Marxist method they deny in practice. Class, nationalism, chauvinism, yes and racism have been invoked to lend supposedly Marxist absolution to ones own sinful violation of the true gospel and to deny true legitimacy to the Marxist faith of others that must be combatted with fire and brimstone not excluding sacred crusades and holy wars against them if necessary.

On the other hand, where state power has not yet been achieved or consolidated in the name of Marx, the method of the historical materialist head must increasingly be joined to the anti-methodical madness of the religious heart, soul and body. For as a Marxist Christian advocate of the theology of liberation has explained, without the historical materialist head, the religious body is blind; and without the religious soul, the head has no way to lead the body. In Latin America, where many would celebrate the centenary of Marx's death with a decade of revolution in his name (which was once regarded as the anti-Christ by himself and others), now the soldiers of Christ are in the forefront of the revolutionary march, and the generals of historical materialist analysis must follow them because they are their leaders! Arm in arm they are knocking on the doors of paradise, but not the secular one predicted by Marx or his historical materialism.

Nonetheless, while Christians may invoke the wrath of God and the love of his son, Jesus Christ, or the Holy Spirit to sanctify this marriage with Marxists, the latter can still avail themselves of the method of historical materialism to explain the renewed vigor of religion and their marriage of convenience with it. Indeed the religious revival, often fused with nationalism and even racism, as among Iranian and Arab Muslims, is sweeping the world again, long after a mistaken historical materialism had pronounced it dead and buried. However, in the wide crescent from North and West Africa via the Middle East and South Asia to South East Asia this religious revival and mobilization, not just of Islam but also of other faithful, is threatening to crucify the historical materialism of Marx and to bury any foreseeable prospects for socialism in his name, let alone in his image. Yet even there historical materialism may still be of use to those who now would honestly inquire how and why earlier historical materialist analysis, not to mention "Marxist" gospel, led us so far astray from the real material determination of consciousness. However, now Marxist historical materialism must be used not so much to deny the persistence of this consciousness or even to transform it to pursue the objectives of Marx, as to facilitate better accommodation to this historical material reality and to help guide man to make his own history within the limitations of changing historical material reality and consciousness. Paul Sweezy, Harry Magdoff and their collaborators at *Monthly Review* have been making their unique contribution to this enterprise, notably in a recent issue of *MR* devoted to "Religion and the Left"; and what small group or even major political party anywhere in the world can honestly claim to have done or now promise more?

## Illusions of Liberation: The Psychology of Colonialism and Revolution in the Work of Octave Mannoni and Frantz Fanon

Elizabeth Fox-Genovese and Eugene D. Genovese

Paul Sweezy, as is his wont, opens a wide range of theoretical problems in his probing and disturbing book, *Post-Revolutionary Society*.<sup>1</sup> Here, we shall consider one of the themes in his book and in the continuing work of Sweezy, Magdoff, and their comrades at *Monthly Review*—the relation of personal liberation and the idea of a New Man and New Woman to social revolution in general and anti-colonial revolution in particular. The ideal of liberation has remained a largely uncontested tenet among Marxists, independent of the theoretical and political differences that divide them on other questions. In this matter, Sweezy and his comrades differ little from others on the left, broadly defined, with whom they differ deeply on many others. But history has yet to offer much comfort or confirmation for this act of faith.

Successful socialist revolutions have yielded much—and promise to continue to proliferate—but precious little in the way of personal liberation and a new humanity. In practice, the transformation of relations of production, the increase in social justice, and, especially for countries of the Third World, the consolidation of national identity, have required a strong dose of discipline. The quasi-ubiquitous consolidation of revolution through the imposition of a strong hand indeed results, in no small measure, from the international balance of forces that throws the socialist world on the defensive. But not entirely. History offers no encouragement to the view that some future communist society could or would realize the goal of personal liberation. Social order has invariably extracted its pound of flesh from personal desire. Psychology—notably Freudian psychology which has, understandably, enjoyed a bad press among Marxists—has not figured much in the work of Sweezy and Magdoff, which is so rich on many other counts. But, then, Marxism as a whole has not developed a commanding psychology, not least because it emphasizes social conditions at the expense of intrapsychic motivation. The irony is arresting. For most Marxists, the goal and deepest justification for revolution remain the liberation of the individual. Yet these very same Marxists base their profoundly psychological vision on a projected transformation of extra-personal conditions. The elimination of social injustice

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We are grateful for criticisms of early drafts by members of the faculty of Rutgers University, where a version was presented as The Mason Gross Lectures, delivered by E.D. Genovese; by the members of the seminar sponsored by the Fernand Braudel Center of SUNY-Binghamton; by the members of the Ethno-History Workshop of the University of Pennsylvania; and by Professor Karen Fields of Brandeis University.

becomes, by an extraordinary leap of faith, the overcoming of the tragedy of the human condition. The myth that conflates the two realms—the social and the personal—may be inescapable for those who launch and carry through social revolutions, but it will not do for those who wish to understand them and avoid subsequent disillusionment.

Among the many virtues of the work of Sweezy and Magdoff, that of insisting upon the centrality of the non-Western world to a serious theory of social change ranks high. In this respect, Sweezy's famous debate with Maurice Dobb can be understood as carrying important political implications, whatever its ultimate value as an explanation of capitalist development in Europe. For, by calling attention to the role of the world market in the development of capitalism, Sweezy was, by extension, calling attention to the contribution of colonies to that development. Whatever the illusions of the Europeans, they could not have done it alone, could not have done it without plundering and subjugating others. In that debate, we align ourselves on Dobb's side, but, like others who hold our position, recognize the compelling nature of Sweezy's challenge, especially with respect to the struggle between capitalism and socialism in the contemporary world. For whether or not capitalism owes its primary impetus to the market and the exploitation of non-European peoples, its most portentous consequence has been the exploitation and subjugation of those peoples. And their claims for self-determination and a just share of the world's economic resources constitute the commanding political question of our day.

For colonial and ex-colonial peoples, the problems of economic survival, economic independence or, at least viability, and political self-determination remain paramount. It is difficult to imagine precisely what the advanced capitalist ideas of personal liberation, so popular in the West, are supposed to mean to peoples like those of contemporary Africa, who confront disaster on every front. Freedom from Western dominance means everything, but if it is taken to mean freedom from the vast complex of technology and science that capitalism has engendered and that remains indispensable for survival on equal terms in the world capitalism has wrought, then it is likely to mean freedom to starve. The road back to traditional subsistence has been blocked. Sweezy and his comrades have devoted great intellectual energy and political sensibility to exploring these and related questions. But in this realm as in others, they have paid little attention to the psychological dimension and implications of their work. Others, notably Octave Mannoni and Franz Fanon, have insisted that the psychological dimension remains decisive—and cannot be separated from the rest. Irreconcilable political opponents who nonetheless shared some strange assumptions, Mannoni and Fanon have emerged as uncommonly influential theorists of the psychology of colonialism and the psychological possibilities for colonial liberation from the web of European dominance. Their work offers an opportunity to explore the psychological implications of colonialism and to

offer some suggestions about the relation of psychoanalysis to a materialist interpretation of history, as well as about the place of the myth of personal liberation in Marxist theory and politics.

The Left has rightly denounced Mannoni's work as an apology for imperialism and racism and might well add that his book *Prospero and Caliban*<sup>2</sup> suffers from dubious extrapolations, lapses in logic, arbitrary and inconsistent use of psychoanalytic concepts, a promiscuous eclecticism that overlays Freud with Adler and Jung, and the reduction of the politics of nationalism to a series of preposterous psychological speculations. Yet, embedded in this mess are valuable insights, most notably an insistence upon the centrality of dependence to human experience.

Mannoni analyzes the intersection of two social psychologies and the dynamics of the social encounter of two personality types. Mannoni understands individual psychology as in part socially constructed. Thus, he discusses practices of the Malagasy, from the maternal and paternal roles in child-rearing to the cult of the dead, and he evaluates their significance for the development of Malagasy dependency.

For Mannoni, the Malagasy crave security and therefore, dependence upon others. Hence, they greeted French occupation as an opportunity to transfer their dependence from a weak set of indigenous rulers to a demonstrably stronger set of foreign ones. The great nationalist rising after World War II and the subsequent shift of support to national leaders and political independence proceeded in a straight line from the same dependency complex. The French had shown weakness and instability during the Vichy period and after the war had had to make concessions to home rule. By giving the Malagasy more freedom, the French withdrew much of their paternalistic support from people for whom security and dependence meant everything. The Malagasy, in Mannoni's reading, rose in rebellion in order to install new indigenous rulers who could provide the desired protection and strong hand. No wonder, then, that Third-World revolutionaries like Aimé Césaire and Fanon denounce Mannoni's reading as racist hogwash and accuse him of refurbishing the old saw about the natural childishness and slavishness of nonwhite peoples.<sup>3</sup>

Yet, Mannoni files a more blistering indictment of the colonizers than of the colonized in his treatment of European psychology and character structure. He projects an ideal-type of the bourgeois individual raised to value personal autonomy and renounce all dependency. Mannoni portrays those European settlers and administrators as people who were fleeing from the demands of personal autonomy and responsibility at home, who could not cope with adulthood, and who combined feelings of inadequacy and fear of self with a strong penchant for bullying.

Like virtually all Western bourgeois theorists Mannoni in effect equates the kind of personal autonomy that emerged with European capitalism with the reduction of human beings to analytically discrete atoms. Carried to its final



absurd conclusion, this equation presents all non-Western peoples, as well as all Europeans who lived before, say, the sixteenth century, as perpetual children. Mannoni proves, to his own satisfaction, that only capitalism can produce mature men and women, for he takes capitalism's ideal type as the norm of adulthood and mental health. This madness would be wildly funny, were it not so pervasive and were it not that it reappears, albeit in disguised forms, in the thinking of so many anti-imperialist theorists of liberation.

Mannoni never systematically contrasts European and Malagasy personality formation. For example, he asserts that the "Malagasy mother enjoys considerable real influence in the family but possesses no actual authority; the position seems to suit her psychologically. . ."<sup>4</sup> This superficial description does not diverge much from descriptions of women in bourgeois society. To establish its significance, Mannoni would have to discuss bourgeois mothers—something he does not do. Mannoni does discuss the role of the father in personality formation, but his comparative method remains arbitrary. He makes much of the Malagasy cult of the dead as inculcating and maintaining dependency in adult males—in binding them to the past and discouraging the development of autonomy:

[For European men], ourselves, however, more important than this moral pantheon, this mythology of authorities, is the continuous, barely conscious debate in which the Ego negotiates with the Super-Ego and the Ideal its chances of existence. It begins with a guilty desire or an agonizing longing to escape from autonomous authority by seeking revenge in some higher authority, and this flight has given our civilization its distinctly evolutionary character.<sup>5</sup>

These blatant apologetics contain an important ingredient of truth. The problems of superego and guilt are surely critical, but his discussion never clarifies their nature or role in Malagasy personality and thus precludes serious comparison. He suggests that the Malagasy do not have an internalized superego of the kind that marks the modern European personality. Yet throughout the book he loosely refers to Malagasy guilt, and, presumably, guilt derives precisely from superego prohibitions. He also refers to wrath of the Malagasy father towards the child—presumably, the male child—but does not explain the origin or development of that wrath, or the child's response to it.

We could charitably reread Mannoni as discussing the question of the individual, internalized superego versus the socially-embedded, collective superego. The problem thus posed may be one of the most compelling for a vital social psychology. But Mannoni never formulates it this way. What are we to make of such categorical assertions as:

In spite of his docility, the Malagasy has no real professional conscience, but that is not for the reasons which would account for its absence in Europeans. He lacks it because he personalizes his relationships where he does not formalize them, and where there is neither formality nor person, there is nothing.<sup>6</sup>

In such a context, Mannoni's plea for a policy of democracy and racial equality carries little weight. At bottom, he favors the revival of quasi-feudal village institutions as a transitional stage and asserts an innate dependency complex peculiar only to non-Europeans that looks perilously like racism under another name.

Mannoni recognizes that both colonizer and colonized participate as subjects in the colonial relation, and that strong elements of dependency characterize the colonizer himself, who in some measure depends upon the dependency of the colonized. But he does not doubt the autonomy of the European personality or reflect upon the repressed and displaced elements of dependency in European culture. Rather, he argues that the colonizers were marginal Europeans, men who did not make it in mature European society. Willing to defend the notion of the archetypal personality, he refuses to accept the implications of an encompassing system of social relations of production and reproduction. Mannoni, deeply impregnated with bourgeois prejudices, obscures the presence of dependence and the desire for autonomy in all personalities. Thus, he cannot evaluate the relative distribution and social mobilization or repression of those qualities in all societies; he cannot, that is, provide the one thing that a coherent social psychology must have. Mannoni admits that the "dependence" and "inferiority" he attributes to the colonized and to the colonizer respectively are not absolute and that some of each marks the inner world of all individuals. But at every vital point he treats them as absolute and thereby comes close to ruining his own insight. Indeed, he specifically tells us that those raised in the bourgeois West have no road back to dependence and must remain condemned to individual autonomy, with its inevitable inferiority complex. In discussing society and politics, Mannoni at least argues coherently, for he is merely acknowledging the irreversibility of the victory of bourgeois social relations over seigniorial social relations, but he does not reflect much on such questions of society and politics.

And on psychological matters Mannoni does not argue with the coherence we might expect from one so sophisticated in psychoanalysis.<sup>7</sup> How can a psychoanalytic model of individual development, which in this case must pass into social development as a whole, offer us a psyche effectively purged of dependence? Mannoni's eclecticism—specifically, his arbitrary introduction of Adlerian, not to mention Jungian, concepts into a Freudian model to which they are unassimilable—results in a bizarre performance. A psychoanalytic interpretation of individual behavior cannot jettison the implications of the

oedipus complex; the tendency, if not necessarily the "instinct," to aggression and rebellion; and the need for security—for dependence. Here Freud's thought is especially rich and deep and superior to that of liberal and radical revisionists, for it is here that it posits irreconcilable conflict.

Western culture has reduced, not eliminated dependency. Nor should it be expected to eliminate it, for it is inherent in the human condition. Quarrels will continue over the limits of freedom from social constraint. But there is no reason based on science or historical experience to expect the elimination of dependency in human affairs, nor would such total liberation be worthy of admiration. From a historical perspective a grimmer problem arises from Mannoni's repudiation of dependency and his celebration of bourgeois freedom. Bourgeois freedom, far from representing the irreversible force he perceives, represents a detour in human history—epoch-making and with some admirable and perhaps even lasting values, but a detour nonetheless.

Mannoni's assertion of an inherent dependency complex can be separated from his racist interpretation, for it has nothing intrinsically to do with innate qualities. If he were to take seriously the implications of his remarks on personality formation in precapitalist European society and non-European societies, he could avoid some of the absurdities into which he plunges. Accordingly let us step back and look at the problem of dependency through non-Western eyes. The place to begin is with that remarkable book, *The Anatomy of Dependence*, by Takeo Doi, the Japanese psychoanalyst trained in both East and West and able to take up the problem in a non-Western and yet noncolonized and proudly independent Asian context.<sup>8</sup>

For Doi, Japanese culture is mother-centered, whereas Western is father-centered. Specifically, the passive love that all children learn at the breast long before any oedipal conflict can arise lingers well into adulthood, encouraged by a definite historically evolved social and cultural environment. This emotion, like the oedipus complex, exists in all humans, but its strength and persistence depend heavily upon historical conditioning. Thus, for Doi, although *amae* or mother-centered passive love, is hardly unique to Japanese, it flowers under the Japanese social structure. By extension, he suggests that non-Western societies generally exhibit tendencies much closer to the Japanese than to the European.

Mannoni's dependency complex may be translated into these terms. European society itself ranged much closer to Doi's model before the advent of capitalism than it has since. We may thus reread Mannoni as illuminating the relation of the colonizer to the colonized and of lord to bondman in general. But establishing that the Malagasy or any other colonized people did have a dependency complex would not support Mannoni's political deductions and, would tell us much less about the Malagasy's accommodation to French colonial rule than it would about the ferocity and depth of their rebellions. For the inability of the French to assume the role of protector to those accustomed to

psychological dependency would illuminate their sense of betrayal and their determination to escape domination, whereas the prior existence of a dependency complex would tell us no more about their accommodation than that, faced with a loaded gun, they had some effective psychological resources for avoiding suicide.

The history of Madagascar refutes Mannoni's political interpretation, although not necessarily his psychological thesis. Not until recently did it become clear even to honest Westerners that the Malagasy have had a long history of state-building and of what, even in the language of colonialist Europeans, would have to be recognized as progress toward civilization.

By 1895, when the French conquered Madagascar, the allegedly backward "natives" had firmly established political stability, instituted public education, welcomed Christianity, sent diplomatic missions to the United States, England, Germany, France, and elsewhere, and had to a fault done everything possible to welcome Western technology and learning and move their country toward becoming a modern state.<sup>49</sup>

But they would not submit to looting or bargain away their natural resources and political independence. Eager for trade, they refused unequal exchanges and exploitative concessions. Their very advanced state of development, as measured by European standards as well as their own, forced the French to choose between naked aggression and relations of equality. To the surprise of no one, except perhaps the more dogged Malagasy aristocrats, the French chose naked aggression.

Thus, Mannoni is right to suggest that the Malagasy welcomed Westerners, but wrong to think they displayed servility. To the contrary, much like the Japanese during the same period, they recognized that they could not remain isolated from the developing world market and political system and that they had to build upon Western science and technology. Unfortunately, they also assumed that the Europeans were genuinely civilized and guided by Christian principles. Hence, the Malagasy rulers trusted the French and British to behave honorably, keep their word, and return goodwill and friendship. They paid dearly for their mistake.

Contrary to Mannoni's version, the Malagasy waged a determined struggle against outside domination. During the first half of the nineteenth century and even much of the second half, they relied on an able and sophisticated diplomatic corps, aided and advised by Europeans but largely indigenous. When the pro-European policy threatened to get out of hand and to alienate resources, as well as destroy Malagasy culture, a bloody palace coup restored a policy of independence. The French decided to take the island either by bluff or force; the Malagasy fought back bravely and won a negotiated peace during the 1880s. They resisted the invasion of 1895, rose in insurrection afterwards, and showed little of the docility Mannoni attributes to them. After World War II they rose again in a great war for national independence that cost them, even by

the most conservative estimate, 60,000 lives.

Thus, Mannoni appears simultaneously too pessimistic and too optimistic: too pessimistic in his estimate of the gap between Western and non-Western peoples and in his fear of some grand psychological and political Reaction among the decolonized; too optimistic in his belief that Western peoples have sloughed off the "dependency complex" and are dragging themselves, albeit with pain and internal suffering, toward something called personal liberation. And in important respects radicals like Fanon share many of Mannoni's illusions.

For manifestly ideological reasons Mannoni retreats from one of the most important implications of his work on the dependency complex, and Fanon recoils altogether with evident distaste: Since dependence is inherent in everyone, the dependency complex represents the cultural conditioning that flows from an ordering of society to stress collective security over individual liberty. Hence, we cannot credit Fanon's oft-repeated notion that the liquidation of colonialism should be understood as a prelude to complete liberation and personal self-recovery.<sup>10</sup> We have no reason to believe that the revolt against colonialism, however justified and welcome, represents a triumph of personal liberty—of individual autonomy—over authority, except in the special and vital sense that it removes the particularly debilitating and criminal element of racist degradation.

It would be impossible to overemphasize the importance to the individual psyche of breaking the bonds of racist—or sexist—oppression. But that liberation cannot be equated with the personal liberation of utopian dreams. To the contrary, the advance of national independence may be expected to strengthen the authoritarianism of both the bourgeois and socialist camps in the present struggle for world power.

Frantz Fanon, the great black revolutionary from Martinique, participated heroically in the Algerian revolution.<sup>11</sup> A psychiatrist by training, he treated the minds and the bodies of his Algerian comrades, and up to the end of his life, sadly shortened by leukemia at age thirty-six, he struggled with the problem of liberation—not merely Algerian, or African, or black liberation but of human liberation, both political and personal. Indeed, at least as much as any other recent theorist or fighting revolutionary, he merged the political and the personal. In so doing, he dramatically affected the radicalism of the 1960s and cast a long shadow across the future of our movement.

Fanon, although firmly anti-racist, denounced virtually all social classes and strata in Europe and the United States for complicity in the crimes of imperialism against the colonial peoples. He looked to the Third World for the salvation of humanity and civilization. Yet, his impact on the radical intellectuals of the West has far outweighed his influence in the Third World, for Fanon's liberationist ideology spoke of the same concerns as did that of Herbert Marcuse and other Western radicals and to the same audience of

disaffected Western and Westernized intellectuals.<sup>12</sup>

Neither Fanon nor Marcuse nor any other theorist of liberation rides high today, but it would be a mistake to pronounce them ideologically buried. Their utopianism dates from time immemorial, exists in Marxism side by side with its antithesis, and may even represent an irrepressible and necessarily recurring tendency within the human spirit. For better or worse, liberationist utopianism will reassert itself in new revolutionary waves. On balance, it will probably be for the worse.

Fanon staunchly refuses to reduce the encounter between colonizer and colonized, white and black, to some purported psychological condition, but he cannot integrate his psychological and social insights. Fanon's first book, *Black Skin, White Masks*, records the psychological autobiography of a black intellectual who confronts a white world. His deep preoccupation with the destiny of the individual black man guides his personal account and theoretical concerns. His work, like that of Mannoni, contains contradictions, inconsistencies, theoretical blunders, *obiter dictae*, profound insights, and valuable hypotheses. But unlike that of Mannoni, it breathes a revolutionary partisanship that deepens its intellectual penetration and arms the people whose cause it proudly intends to serve.

Fanon criticizes imperialist apologetics with the righteous indignation of one cast as the dependent native forgetful of his place—who "pays for his own rejection of dependence with an inferiority complex."<sup>13</sup> Fanon invokes conquest and colonialization, within which unfold "the inner relationships between consciousness and the social context."<sup>14</sup> And he raises the question of economic consequences: "Why colonization itself must be brought to trial."<sup>15</sup> But that indictment of colonization leads Fanon back to Jean-Paul Sartre's formula "It is the anti-Semite who *makes* the Jew" and thus to its corollary, "*It is the racist who creates his inferior.*"<sup>16</sup>

Rejecting Mannoni's assertion that the Malagasy has "no choice save between inferiority and dependence," Fanon objects to thus restricting the paths to "salvation."<sup>17</sup> That quest for a salvation for those he came to call the damned or the wretched of the earth would haunt him until his death. And the preoccupation with salvation, with what Mannoni and Fanon himself later called "conversion," would inform the increasing emphasis he came to place upon violence.

The notion of salvation runs counter to the strong existentialist current that Fanon absorbed from Sartre and others. He lets the contradiction persist in uneasy tension, although he comes close to conflating them arbitrarily in *The Wretched of the Earth*. In *Black Skin, White Masks*, however, he comes down hard on the existentialist side and gravely weakens his analysis.

The existentialist categories are European. When Fanon criticizes Mannoni's alternatives on the grounds that they allow no place for the Malagasy—who "can perfectly well tolerate the fact of not being a white

man"—to be a Malagasy, or rather "to 'live' his Malagasyhood," he plunges into a labyrinth.<sup>18</sup> For Fanon, in taking fuller account than Mannoni did of the real features of colonial oppression and exploitation, nonetheless concedes too much and too little to the impact of European on the colonized:

If he is a Malagasy, it is because the white man has come, and if at a certain stage he has been led to ask himself whether he is indeed a man, it is because his reality as a man has been challenged. In other words, I begin to suffer from not being a white man to the degree that the white man imposes discrimination on me, makes me a colonized native, robs me of all worth, all individuality, tells me that I am a parasite on the world, that I must bring myself as quickly as possible into step with the white world, 'that I am a brute beast, that my people and I are like a walking dung-heap that disgustingly fertilizes sweet sugar cane and silky cotton, that I have no use in the world.' The I will simply try to make myself white: that is, I will compel the white man to acknowledge that I am human. But, M. Mannoni will counter, you cannot do it, because in your depths there is a dependency complex.<sup>19</sup>

In touching upon that racism which denies the very humanity of the other—of the colonized—Fanon lays bare the most pernicious and destructive psychological impact of colonization. But, in accepting the existentialist analysis in which the racist creates the object of his denial, he counters racism as the affirmation of non-being with a barely more useful affirmation of universal being. For Fanon, celebrated as a theorist of national liberation, never makes peace with nationalism. Humanism remains his great strength, but he remains ambivalent about its specific content. He never completely resolves his personal dilemma as a colonized intellectual who aspires to equal status and dignity in a world community.

Fanon acknowledges, if barely, the commanding status of European science, technology, and intellectual life. "The black man wants to be like the white man. For the black man admitted there is only one destiny. And it is white. Long ago the black man admitted the unarguable superiority of the white man, and all his efforts are aimed at achieving a white existence."<sup>20</sup> But he knows the impossibility of this ambition. For the black intellectual a white destiny remains the one and only, yet impossible, destiny. The choking agony of having to face a verdict of inferiority in the eyes of the white other—the ever-renewed failure of adequate, self-validating recognition—dictates placing the responsibility for the racist ravages on the shoulders of the colonizer or the metropolitan white. That same strategy simultaneously risks robbing the colonized of his active subjectivity.

Fanon poignantly portrays the extent to which the West Indian black child

experiences himself in white terms. At the movies, the colonized child identifies with Tarzan against the Negroes. Only upon arriving in Europe, Fanon contends, does the child, now a young adult, recognize himself as the object of Tarzan's aggression. Fanon's account suggests that the colonized has no alternative but to reconquer the identification with Tarzan on new terms, but this conclusion leads explicitly to a repudiation of the colonized's own past. Thus, he asserts his identity as a man independent of his culture of origin:

I am a man, and what I have to recapture is the whole past of the world. I am not responsible solely for the revolt of Santo Domingo. . . . In no way should I derive my basic purpose from the past of the peoples of color. In no way should I dedicate myself to the revival of an unjustly unrecognized Negro civilization. I will not make myself the man of any past. I do not want to exalt the past at the expense of my present and of my future.<sup>21</sup>

By the time Fanon wrote *The Wretched of the Earth* he had come to understand the dangers of this position.

In *Black Skin, White Masks*, Fanon's repudiation of a determining past spills over from the historical sphere, in which he uncritically posits the hegemony of European culture and the erosion of West Indian folk culture, to the sphere of psychology. He asserts universal manhood but denies the universality of neurosis, which, "it is too often forgotten . . . is not a basic element of human reality. Like it or not, the Oedipus complex is far from coming into being among Negroes."<sup>22</sup> Ethnologists like Malinowski, who would ascribe this absence to the prevalence of a matriarchal structure, are in Fanon's judgment, compelled to find the complexes of their own civilization "duplicated in the people they study."<sup>23</sup> Fanon claims that he could show "that in the French Antilles 97 percent of the families cannot produce one Oedipal neurosis." Leaving aside a few "misfits within the close environment, we can say that every neurosis, every abnormal manifestation, every affective erethism in an Antillean is the product of his cultural situation."<sup>24</sup> This from a psychiatrist! Let us pass over the equation of "real," personal neurosis in contradistinction to cultural neurosis with misfits. Fanon asserts that neurosis is a white man's problem—or luxury. But psychoanalysis treats the fundamental and universal structures of the inner human world. The existence of an oedipal conflict does not depend upon the presence of a culturally specific oedipal neuroses; repression, moreover is the hallmark of the successfully negotiated oedipal state.

For Fanon, in the West Indies:

There is a constellation of postulates, a series of propositions that slowly and subtly—with the help of books, newspapers, schools,



and their texts, advertisements, films, radio—work their way into one's mind and shape one's view of the world of the group to which one belongs. In the Antilles that view of the world is white because no black voice exists.<sup>25</sup>

Fanon means that the colonizer commands the media. But whites also experience the shaping power of the media, which do not exercise the total power that Fanon suggests. In asserting the absence of all black voices, Fanon slights the experience of the colonized. Logically, he cannot have both no black voice and no black oedipal neurosis. His experience in Algeria, movingly recounted in *A Dying Colonialism*, would alert him both to the vitality of the life of the colonized, however much distorted by colonialism, and to the political malleability of the media. Fanon refused to celebrate the supposed superiority of some natural colonized culture, but his experience dulled his ability to appreciate those black voices—that of the mother or song—which even he apparently could only see through the condescending eyes of the whites.

In Fanon's view, the European family functions as a prism through which the world presents itself to the child. Close connections bind the structure of the family to that of the nation. Thus, for example, militarization tends to strengthen the authority of the father within the white family:

In Europe and in every country characterized as civilized or civilizing, the family is a miniature of the nation. As the child emerges from the shadow of his parents, he finds himself once more among the same laws, the same principles, the same values. A normal child that has grown up in a normal family will be a normal man.<sup>26</sup>

In contrast, the "normal Negro child, having grown up within a normal family, will become abnormal on the slightest contact with the white world."<sup>27</sup> For Fanon, since the colonial family remains cut off from genuine connection with the nation, French or other, the child who would make it into the white world must do so by repudiating rather than by realizing his own family. He thus "tends to reject his family—black and savage—in his imagination, in accord with the childhood *Erlebnisse* . . . and the family structure is cast back into the *id*."<sup>28</sup> Fanon testifies to the genuine pain of the black intellectual who must accept self-denial or self-mutilation in order to conform to the world he aspires to enter. Paradoxically, Fanon fails to grant adequate weight to the fundamental struggle of any individual with his own infantile past. He denies the oedipal conflict, understood as intra-psychic conflict, in a fashion similar to that of such American sociologists as Talcott Parsons.

Fanon, in the autobiographical framework for his political writings, draws closer to Mannoni than he ever intended. Both fall back on Adler and Jung,

rather than follow Freud, and seize upon the tempting combination of inferiority complex and archetype. Fanon, in ascribing to the white world the power to create the black psyche, bypasses the unconscious roots of black experience within specifically black families. Thus, his early work paves the way for the concept of revolution as a total transformation.

Fanon tends to posit the inescapable social context of psychological experience as a cause of inner experience, rather than explore the mediations that bind inner and outer worlds. Recognition of the corrosive impact of colonial oppression does not require denial of the existence of oedipal tensions within the colonized family. The source of this denial can, however, be easily understood. In principle, an oedipal conflict means the murderous rage of a small boy against the father who holds primary claims to his mother's love. The resolution of the conflict depends upon the boy's repressing the aggression, identifying with the father, and expecting to inherit his father's position—to become head of a family of his own. The colonized, however, must repudiate his own father and his own race.

Since the oedipal conflict occurs roughly between the child's third and fifth year, the intrapsychic structures of identification have already been established by the time the colonized adolescent faces the traumas Fanon invokes. The core of the child's personality thus takes shape prior to his direct confrontation with the horrors of colonial oppression. In principle, therefore, in a reasonably warm and cohesive family the colonized child should have established some of the personal identity and psychological strength necessary for adaptation and resistance to a white-dominated society. Even as slaves, black mothers, fathers and other adults provided the love, attention, and discipline necessary to prepare children to survive in a dangerous white-dominated world.

The continuing process of mediation between the social and the intrapsychic worlds precludes a simple representation of this early identity-formation. Since the parents who provide the pivots of the child's early experience of the outer world have themselves been living in the world of the colonizer, the authority figure who constitutes the child's oedipal rival probably harbors ambivalent feelings about his own authority.

The tension engendered by the experience of colonization explodes in Fanon's ultimate reliance upon notions of rupture, violence, cataclysm, conversion, and rebirth. In *Black Skins, White Masks*, he still sought for himself personal liberation as a black intellectual from a black colonial past. But such liberation was not open equally to all the colonized. In some ways his early quest suggests a desire for liberation from those other colonized who themselves constituted the past. For Fanon, neither the world of the colonizers nor that of the colonized promised the liberation of those black intellectuals who were unwilling to repudiate their blackness and unwilling to forgo their rights and dignity as men.

The confusions that plague the autobiographical encounter persist in Fanon's

subsequent work, but are increasingly informed by the rich social and political content of the Algerian Revolution. The remarkable essays in *A Dying Colonialism* illustrate the change and continuity in his work. In "Algeria Unveiled," Fanon explores the role of Algerian women between the colonizers and the colonized. He begins with the colonizers' attempt to transform Algerian values by convincing the women to unveil. The colonized resisted recognizing in their veiled women an essential residue of their cultural independence. The purported rights of women, as understood in Western culture, are being invoked for palpably reactionary purposes. Unveiling the women—symbolically removing them from the control of their men and of the colonized community—would only prepare the community, including the women, for more thorough exploitation and oppression. In this context the rights of women as individuals are meaningless. But Fanon does not want to perpetuate men's control of women; he wants certain undeniable rights of women subordinated to the survival of a community under assault.

The revolution transformed the problem. Women became necessary participants in the resistance of the colonized. So women unveiled and used their freed bodies to provoke and distract the European men. The colonized learned to play upon the weakness of the colonizers and to pass messages and arms. The colonized came, almost overnight, to accept and value their women for behavior and actions that previously would have been taken as the dismantling of the remaining shreds of collective pride.

Eventually, the Europeans no longer bemused and distracted, began to subject unveiled women to systematic search. So the women reveiled in order to continue to perform precisely those activities which had previously justified their unveiling. Women, now holding themselves and walking in the old shy, reserved manner, carried grenades strapped to their bodies.

The reversion entailed neither a return to traditional attitudes, nor a guarantee of success. Every woman on such a mission risked search, discovery, rape, and death. On May 13, 1957, the French forced a day of symbolic unveiling upon Algerian women, whom they dragged to the public square. The women responded by spontaneously resuming the veil, now stripped of its traditional meaning.

Fanon argues that this history of the veil embeds a dynamism typical of the development of Algerian colonization. Having begun as a mechanism of resistance, the veil represented both the traditional commitment of Algerian society to the separation of the sexes and the determination not to be unveiled by the Europeans. Subsequently, revolutionary action dictated abandonment of the veil. Fanon concludes, "The colonialists are incapable of grasping the motivations of the colonized. It is the necessities of combat that give rise in Algerian society to new attitudes, to new modes of action, to new ways."<sup>29</sup>

Fanon explicitly juxtaposes the truth of the Algerian woman in revolution to the bankrupt "scientific studies" that purport to codify and fix her. Theorists

had long debated the status of the Algerian woman as either "man's slave or as the unchallenged sovereign of the home."<sup>30</sup> Her inaccessibility, ambivalence, and masochism had all been probed. But those studies failed to get at the truth that colonialism does not settle for occupying territory alone: "French colonialism has settled itself in the very center of the Algerian individual and has undertaken a sustained work of cleanup, of expulsion of self, of rationally pursued mutilation."<sup>31</sup>

Fanon's pictures of the annihilating effects of colonialism resemble his discussion in *Black Skin, White Masks*, but now he can assert that in "forty-eight hours the Algerian woman has knocked down all the pseudo-truths that years of 'field studies' were believed to have amply confirmed."<sup>32</sup> Fanon now reads the Algerian past differently than he had read the fate of indigenous culture among the West Indians. He argues that the Algerian people had never fully succumbed to colonialism, never disarmed. The Algerian woman, like her brothers, had dissembled, had built up defense mechanisms, had resorted to trickery. November 1, 1954 constituted not an awakening, but a signal that permitted the emergence of what existed beneath the surface falsehood of the contact between the occupier and the occupied. The scientific studies of the status of Algerian women "are today receiving the only valid challenge: the experience of revolution."<sup>33</sup>

Fanon has been severely criticized for illusions. In particular, revolutionary Algeria has lagged behind its more conservative neighbors, Tunisia and even monarchist Morocco, in such elementary matters as access of women to the labor force.<sup>34</sup> In the Islamic countries feminism and women's rights have advanced most rapidly in those countries that avoided direct Western colonization. In the colonized Islamic countries, with some exceptions, neo-traditionalist attitudes have marked the anti-Western, anti-imperialist movements and ideologies. Hence, Juliette Minces, among Fanon's more telling critics, has argued that the revolutionary movement in Algeria cultivated a progressive international image on such questions as women's rights, especially in France and some other countries, but that it considered the mobilization of women for the struggle a tactical and temporary necessity.<sup>35</sup>

Minces probably does some injustice both to Fanon and the new Algerian regime. The war had a considerable and positive effect on the struggle for women's rights, and the regime remains committed to sexual equality, albeit effected slowly and "without shocks." Conditions have improved markedly since the expulsion of the French, and Minces herself says too much when she admits that Ahmed Ben Bella spoke up for women's rights in the early days of independence in order to court popularity. Yet, Fanon had as little patience as Minces with reformist creeping. For him the issue concerned the content, not merely the pace, of liberation: He sought not merely equal rights for women, but a "new" woman and a "new" man. Thus, even if the pace of social, political, and economic advance for Algerian women was today as rapid as, say

the pace attributed to revolutionary South Yemen, Fanon might not be satisfied.

Here, too much ambiguity remains. Minces, who properly takes Fanon to task for thinking that a nationalist movement and ideology could effect more than national liberation, suggests that only a social-revolutionary movement, committed during the struggle for power to a new internal order and a break with tradition, can bring about a deeper transformation in the minds and action of the people. Fanon did have a point: Most if not all of such wars of liberation promote a forward movement in the status of women and in human dignity in general. But it does not follow that much more is at stake than the conquest of those political rights, precious enough in their contribution to self-affirmation, which were long ago achieved in the greatest of the bourgeois revolutions and advanced in the socialist revolutions. It does not follow that such developments open the road to the kind of personal liberation dreamed of by the anarchists, the utopian socialists, and even by Marx in his frequent visionary movements—and dreamed of by Fanon.

Every revolution that brings a new social class to power effects a cultural revolution, the extent and depth of which may vary considerably. Yet, a fatal ambiguity haunts Fanon's tragic life's work. When he tells us that the Algerian revolution radically altered the relations of men and women, the attitude of men toward women, and the attitude of women toward themselves, what exactly does he mean? Had he lived longer, he might have cited the revolutions in Guinea-Bissau, Angola, or Mozambique. His most discerning feminist critics have not denied the role of national revolution in the transformation of the position of women; they have criticized him for too rosy a picture of a particular nationalist revolution, the socialist character of which they have doubted. They have argued for the centrality of a party ideology and practice committed throughout the national struggle to equality for women, as Amílcar Cabral argued during the struggle in Guinea-Bissau.

In Guinea-Bissau the revolutionary movement led by Cabral made the emancipation of women a cardinal demand during the struggle against the Portuguese.<sup>36</sup> To have done so took extraordinary daring and dedication, for while the revolution badly needed the support of Guinean women, it had to confront the truth that the subjugation of women antedated the Portuguese arrival and had firm roots in the indigenous social structure and economy. The revolutionary party made strong efforts in the villages not only to reeducate the men to their responsibilities in a new social order, but also to reeducate the women, many of whom had been raised to timidity and deference while by no means being oblivious to their own oppression.

The revolution, in short, did hold out the entirely realizable hope of a new social order in which men and women would have to relate to each other as equals. If, indeed, Fanon meant to project no more than a liberation of this kind, he would have had reason, whatever his misjudgments about Algeria. Even then it is not certain that he intended much more. But his ambiguity led a

generation of New Leftists here and abroad to read into his projection of a new woman and a new man a personal liberationism of another kind.

The New Left generally imagined the projected post-revolutionary man and woman as the free spirits of utopian lore. On this matter they caricatured Marx, who may have been tragically wrong in his hopes for a free communist man, but who certainly never expected a great change in human nature without an enormous prior expansion in the productive forces of society. Whatever the speculations of Marx or Fanon, the anti-imperialist revolution has, when successful, liberated peoples to pursue their own collective destiny, and it has liberated women to struggle for equality on immeasurably more favorable terrain. All of which should be enough. And none of which touches in the slightest the dreams of a world community of loving and loved men and women, forever liberated to do their own thing.

Fanon never frees himself from this ambiguity. Denying that the moment of revolution "creates" the new Algerian woman—and presumably other new social forms as well—he posits the subterranean existence under colonialism of the social forms that will emerge at the moment of its crisis. But if such forms existed, why did they not challenge colonial domination earlier? And if they could exist so freely, how can he ascribe such devastating power to the colonial experience? Fanon writes:

What is true is that under normal conditions, an interaction must exist between the family and society at large. The home is the basis of the truth of society, but society authenticates and legitimizes the family. The colonial structure is the very negation of the reciprocal justification. The Algerian woman, in imposing such a restriction on herself, in choosing a form of existence limited in scope, was deepening her consciousness of struggle and preparing for combat.<sup>37</sup>

Fanon's passionate, romantic reading of the Algerian experience provides a corrective to his previous reductionist reading of the West Indian experience, but problems remain. Colonialism negated the reciprocal justification of family and society, but not the reciprocal influence of the two. Algerian women, like black women in American slavery, may have partially accepted subordination in the interests of the survival of their people, but they cannot fully be understood in those terms. Western social science did not, singlehanded, create the myth of the subordination of the Muslim woman. The European conquest erupted on a traditional society hardly noted for its egalitarian attitudes towards women. Undoubtedly, much of the tradition persisted after the conquest; undoubtedly, the defense of tradition acquired new meaning under the successive generations of colonial domination. But, as the history of working class and black families in Western Europe and the United States reveals, terrible pain and high cost accompany the determination of an oppressed class



or race to preserve its integrity and humanity. Fanon knows as much.

In a moving passage in *The Wretched of the Earth*, he speaks of the tremendous toll extracted by colonial domination on relations among the colonized.<sup>38</sup> Unable or unwilling to confront the colonizer, the colonized unconsciously treat each other as screens for their oppressors. They turn their rage against fellow victims, all the more when those victims happen to be the tax collector or, with greater potential for tragedy, the grocer to whom one owes money. Rivalry, competition, theft, and violence among those who should be allies result.

Fanon comes close to positing colonialism as a total institution that corrupts the personalities of the colonized—shades of Stanley Elkins—to positing a prevailing mentality of resistance that turns every embattled human existence into a consciously assumed destiny. He does not seem able to posit the tension of a historically evolving, frequently undramatic, but nonetheless heroic, struggle against oppression that penetrates the deepest crevices of the life of the colonized.

Of all of Fanon's essays, that on the reception of the radio by Algerian society ranks among the most successful. He demonstrates how the colonized long boycotted the radio, which they regarded as the hostile and impinging voice of the colonizer, only to embrace it with enthusiasm, and at the risk of reprisal, when it became the voice of Algeria.<sup>39</sup> The radio derives its meaning from its position in the struggle. The essay argues that the revolution radically alters the meaning of all features of life, but also demonstrates considerable sensitivity to the changing significance of objects in changing historical conditions. Discussing the radio, an inanimate object, however highly charged, permits Fanon a perspective that human relations and psychological categories do not. A radio is always a radio, independent of the vicissitudes of its acceptance and uses. An oedipus complex presents more difficulty. And yet, to the extent that one accepts the psychoanalytic wisdom according to which an oedipus complex is a measure of the human condition, to deny that complex means to deny a feature of humanity.

The problem of the oedipus complex returns, by its absence, to haunt Fanon's powerful essays in *A Dying Colonialism*, particularly the essay on the Algerian family. According to Fanon, the revolution transformed the dynamics of the Algerian family. Where once the father reigned supreme, the son now assumes his authority. The transition derives not from the intrapsychic dynamics, but from the conditions of war and revolution in which the son, not the father, plays a commanding role. The son's leadership in the struggle automatically assures his hegemony within the family.

Even before the revolution, sons had been more likely than their fathers to espouse the nationalist cause, but, according to Fanon, they had done so without overtly challenging their fathers' authority: "The relations based on the absolute respect due to the father and on the principle that the truth is first of all

the unchallengeable property of the elders were not encroached upon. . . . The absence of actual revolutionary action kept the personality in its customary channels."<sup>40</sup> The passage into direct action decisively alters that relation. The son, following the lead of the political party, frees his attitude "of everything that proves unnecessary and detrimental to the revolutionary situation. The person is born, assumes his autonomy, and becomes the creator of his own values."<sup>41</sup>

Fanon is again invoking the notion of rebirth. The revolution creates the new person within the new society. Under the new conditions, even the father who attempts to reassert his authority over his son refers to the new values—how can you really best serve the cause?—rather than to his traditional responsibilities, duties, and privileges. This same father delights in the unveiled freedom of his militant daughter. Similarly, the relations between the married couple undergo a radical transformation. The woman becomes a sister, a comrade in arms. Undoubtedly, many families responded in this way, but probably, many did not. Among those who did, surely many did so with doubt, hesitation, and ambivalence, as well as with generosity and courage.

Fanon's myth of the transformative force of revolution apparently owed much to Albert Camus' explorations of rebellion. Reflecting on the French resistance, the possibilities for revolt, and the conditions that legitimate murder, Camus developed a myth of the rebel and of the revolution. But Camus' own post-resistance work became increasingly pessimistic and preoccupied with the permanent features of the human condition (e.g. *The Fall*).<sup>42</sup> For Camus, the revolution did not change anything beyond itself.

Fanon would have been horrified to have his own work so interpreted. *The Wretched of the Earth* staunchly proclaims his commitment to new social relations and a new society. He was much too sophisticated to postulate a simple myth of revolutionary violence, but his qualifications, recognitions of the historical legacy of colonialism, and moments of acute political analysis do not counter-balance his celebration of violence.

Fanon is at his best in describing the colonial bourgeoisie. Discussing Africa in the light of the experience of Latin America, he argues convincingly that a bourgeoisie devoid of economic power and dependent upon the capitalist forces of the metropolis can never play a historical role comparable to that of the European bourgeoisie. He offers trenchant criticisms of the characteristic roles played by intellectuals and trade unions in newly decolonized countries. He remains alert to the dangers of having the countries of the Third World embrace the values of the colonial epoch, whether those of the metropolis or of the colony itself. He insists that the underdeveloped countries must find their own particular values, methods, and style. But his inability to formulate such values specifically, beyond pleas for solidarity and transformation, throws him back toward a liberationist celebration of violence for its own sake. Thus, he wants the nationalist militant to flee the corrupt and outworn practices of the town to



find "in real action a new form of political activity which in no way resembles the old":

The people engaged in the struggle . . . who because of it command and know these facts, go forward, freed from colonialism and forewarned of all attempts at mystification, inoculated against all national themes. Violence alone, violence committed by the people, violence organized and educated by its leaders, makes it possible for the masses to understand social truths and gives the key to them. Without that struggle, without that knowledge of the practice of action, there's nothing but a fancy-dress parade and the blare of the trumpets. There's nothing save a minimum of readaptation, a few reforms at the top, a flag waving: and down there at the bottom an undivided mass, still living in the middle ages, endlessly marking time.<sup>43</sup>

Fanon, the psychiatrist, has turned toward exorcism and acting-out.

The widespread criticism of Fanon's famous celebration of violence has, for the most part, missed its mark. In particular, we may dismiss the protests of those whose tender sensibilities recoil at the violence and terror of revolutions, especially revolutions carried out by nonwhites, but who rarely if ever notice that colonialism itself has always been based on violence and terror. Fanon, in calling for all-out war against the colonizers, takes morally unexceptionable ground and talks hard sense.

Fanon's fascination with the personal dimension of political violence is another matter. Flatly, he declares that the colonized, having suffered the full assault of racist aggression against his ego, develops a deep need to use personal violence against his tormentors. For Fanon, colonial oppression has seriously disoriented the individual psyches of its victims and undermined their sense of worth. To a dangerous extent they have become creatures of the physical and psychological terror perpetrated against them. In consequence, their restoration to mental health requires that they physically assault those whom they hold responsible for their sickness as well as for their oppression. Hence, revolutionary violence becomes personal psychotherapy.

Fanon's argument veers toward the pathological. Fanon invokes political struggle and specific acts of politically sanctioned violence as a cure for mental illness. The political has become personal—and with a vengeance.

Fanon barely discusses one of the principal forms of violence practiced during the revolution: organized political violence by Muslims against Muslims. For the FLN found it necessary to use terror on an extensive scale against suspected Muslim collaborators. In Algiers, for example, the legendary underground leader Saadi Yacef directed a ruthless campaign of terror-bombing that struck down Muslim as well as French men, women, and

children. That he like Fanon, could make out a strong political case for revolutionary terror is neither here nor there. No doubt, the struggle required crushing those who, either from fear, greed, or even errant principle, sided with the colonial oppressor. But the supposedly therapeutic effects of violence when applied by the oppressed themselves will not wash.<sup>45</sup> No evidence sustains Fanon's thesis of the therapeutic effects of the colonials' violence against the oppressor—a question that intrinsically has nothing to do with the question of the colonials' right to use violence in the struggle for their political freedom.

In Fanon's opening discussion of the personal dilemma of a black intellectual in a white world, he faces the contradiction of affirming the brutalizing impact of colonial domination and the possibility of direct access to a universal, uncrippled manhood. To perceive that manhood as potentially his, he has to deny his colonial past. Yet the past would not leave him alone. His participation in another people's struggle for freedom from the oppression he himself has suffered brings to the fore his strongest and most generous qualities, but he never resolves the agonizing question of the historical identity available to those who suffer such overwhelming oppression. Understanding the importance of political action and the necessity for the colonized to assume control of their own destinies, he concludes that continued reliance on the forms and practices of the colonizers would re-enmesh them in the psychological subordination to those colonizers. The first requirement becomes a new life. In that demand, the quest for personal and social liberation blend, with violence the social equivalent of the personal mechanism of conversion.

There is no mystery to Fanon's eclipse as a theorist in the Third World. To be sure, the majority of the regimes in Africa are bourgeois-nationalist, when they are not flagrantly neo-colonial, and as such represent everything Fanon fought against. Their indifference to Fanon merely represents their commitment to new forms of reaction and, if anything, illustrates his indictment of their counter-revolutionary character. But even such genuinely revolutionary regimes as those in Angola and Mozambique cannot do much more than honor him for his services as a militant and respect the best of his teachings on imperialism and social revolution. In the process of building new socialist societies they cannot worry themselves about his dreams of personal liberation.

It is rather in the West, where social revolution is at ebb tide and where the radical intelligentsia, largely divorced from the political struggles of the communist and labor movements, slides ever more dangerously into utopian visions of personal liberation, that his long shadow remains so disquieting. We have not heard the last from his tormented soul, but what we seem destined to hear again may not well serve the struggle for world socialism to which he sacrificed his noble life.

Hence, we return to the oedipus complex and to the Christian doctrines of the immortality of the soul and the nature of original sin—to the conflict between freedom and order inherent in every individual, which can be disciplined and

circumscribed but never resolved. The theorists of personal liberation properly insist that all human beings aspire to self-expression, to freedom, to autonomy, but they offer no evidence that human beings can avoid dependence on others. That need for dependence creates opportunities for exploitation and oppression, which will always be grasped, for the inherent dialectic remains inseparable from the will to command and the urge to obey.

All projections of a society of free individuals who have no need or wish to oppress each other reveal themselves as will-o-the-wisp. The commitment to revolutionary change, and specifically to the ideal of a classless society, has little to do with dreams of a "New Man" or "New Woman." It projects a society so ordered as to provide social relations of production and institutional structures that eliminate possibilities for economic exploitation and reduce to a minimum possibilities for social oppression. From this point of view, the liberationism of Fanon collapses into the liberalism of Mannoni, for both rest on the illusion of the fully autonomous ("adult") individual—that illusion *par excellence* of the bourgeois marketplace which Marx pilloried mercilessly only to restore in the illusion of a free communist man and woman.

Colonialism, as a particular conjuncture of economic exploitation, racist oppression, and individual degradation, wreaks its own psychological havoc. To end that havoc and cure the resultant sickness requires a total political rupture—a revolutionary transformation. But that transformation can do no more than end the specific forms of human destruction against which revolution is directed. It cannot resolve the conflict between the individual's claims to autonomy and society's claims to order and submission. That conflict, on all evidence, will remain inherent in the human personality itself.

The revolutionary destruction of colonialism—and beyond, the revolutionary destruction of all class, racial, and sexual oppression—must be valued as an end in itself. Psychologically, it cannot be expected to "liberate" the human personality from dependence. It cannot even be expected to provide the "necessary precondition" for such a liberation, for that liberation remains an impossibility and therefore an unworthy aim.

The destruction of colonialism and the attainment of national independence liberate a people to develop that relation of freedom to order, of the individual to the collective, which at best suits its particular genius and at worst corresponds to its internal relations of class forces in the wake of revolution. The rest, including the psychological specifics, remains a matter to be decided by social struggles, which will determine the balance of freedom and order in society but which can never eliminate the contradiction and struggle within, and therefore among, the participating individuals.

The City of Man, not the City of God, provides the object of political struggles. The City of God must be left to God. Notwithstanding all Promethean calls to storm the heavens, notwithstanding all the humane imagination and generous impulses that call for a community life of loving and

giving, freed of all selfishness and striving to dominate others, notwithstanding all dreams of the earthly perfection of human beings, there is not the slightest reason to believe—and there is every reason to fear the consequences of believing—that some grandly liberated New Man and New Woman will ever enter those fabled Gates of Heaven.

## Notes

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3. Aimé Césaire, *Discourse on Colonialism*, N.Y., 1972, pp. 39 ff; Frantz Fanon *Black Skin, White Masks*, N.Y., 1967, pp. 83-108, *passim*.
4. Mannoni, *Prospero and Caliban*, p. 57.
5. *Ibid.*, p. 56.
6. *Ibid.*, p. 72.
7. See, for example, Octave Mannoni, *Freud*, N.Y., 1971.
8. Takeo Doi, *The Anatomy of Dependence*, Tokyo, 1973.
9. For an introduction to the history of Madagascar, as it bears on these themes, see Raymond K. Kent, *Early Kingdoms in Madagascar, 1500-1700*; and P. M. Mutibwa, *The Malagasy and the Europeans: Madagascar's Foreign Policy, 1861-1895*, London, 1974.
10. Albert Memmi's work contains similar notions but also self-critical reflections. See, for example, *The Colonizer and the Colonized*, N.Y., 1965.
11. In addition to Fanon's *Black Skin, White Masks*, see *A Dying Colonialism*, N.Y., 1965; *Toward the African Revolution*, N.Y., 1964; *The Wretched of the Earth*, N.Y., 1963. The biographical and critical literature on Fanon is now extensive. The best place to begin is still Irene L. Gendzier, *Frantz Fanon A Critical Study*, N.Y., 1973.
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13. Fanon, *Black Skin, White Masks*, p. 93.
14. *Ibid.*, p. 97.
15. *Loc. cit.*
16. *Ibid.*, p. 93. See also Jean-Paul Sartre, *Anti-Semite and Jew*, N.Y. 1965.
17. Fanon, *Black Skin, White Masks*, p. 93.
18. *Ibid.*, p. 98.
19. *Loc. cit.*
20. *Ibid.*, p. 228.
21. *Ibid.*, p. 226.
22. *Ibid.*, pp. 151-152.

23. *Ibid.*, p. 152.
24. *Loc. cit.*
25. *Ibid.*, pp. 152-153.
26. *Ibid.*, p. 142.
27. *Ibid.*, p. 143.
28. *Ibid.*, p. 149.
29. Fanon, *A Dying Colonialism*, pp. 63-64.
30. *Ibid.*, p. 64.
31. *Ibid.*, p. 65.
32. *Loc. cit.*
33. *Ibid.*, pp. 65-66.
34. See in general Lois Beck and Nikki Keddie, editors, *Women in the Muslim World*, Cambridge, Mass., 1978.
35. Juliet Mince, "Women in Algeria," in *Ibid.*, chapter 7.
36. Stephanie Urdang, *Fighting Two Colonialisms: Women in Guinea-Bissau*, N.Y., 1979; also, Amilcar Cabral, *Return to the Source: Selected Speeches of Amilcar Cabral*, N.Y., 1973; and *Revolution in Guinea: Selected Texts by Amilcar Cabral*, N.Y. 1969.
37. Fanon, *A Dying Colonialism*, p. 66.
38. Fanon, *Wretched of the Earth*, p. 248.
39. Fanon, "This Is the Voice of Algeria," *A Dying Colonialism*, pp. 69-97.
40. *Loc. cit.*
41. Albert Camus, *The Fall* [ ]
42. Fanon, *Wretched of the Earth*, p. 117.
43. Alistair Horne, *A Savage War for Peace: Algeria, 1954-1962*, N.Y. 1977, pp. 184-194, and *passim*.

## Value, Exchange and Capital

Donald J. Harris

"The simplest economic relations . . . conceived by themselves, are pure abstractions; but these relations are, in reality, mediated by the deepest antithesis, and represent only one side, in which the full expression of the antithesis is obscured."<sup>1</sup>

### Introduction

The literature of Marxian economic analysis posits three forms of the circulation of commodities consisting of (1) simple commodity exchange, (2) the circulation of capital as "merchant capital," and (3) the circuit of capital as "industrial capital." These three forms play a crucial role in both theoretical and historical analysis. Nevertheless, they continue to be highly problematical as to their exact meaning and proper status in the analysis. The particular substantive features which characterize and differentiate them as abstract categories remain blurred. There is also no agreement concerning the concrete historical conditions which they are supposed to represent.

They are often argued to represent different concrete historical forms of society which occur as discrete points or stages in a sequential pattern of historical development. This argument has a long history going back at least to Engels and, some writers claim, even to Marx himself, and it has re-emerged in recent discourse.<sup>2</sup> On the other hand, Laurence Harris rejects the argument that these forms represent a historical transition from a pre-capitalist system to capitalism and holds instead that the transition reflects different stages within capitalism.<sup>3</sup> Oskar Lange takes the view that different "modes of production" coincide with definite periods of historical development, if only "roughly," but considers simple commodity exchange to be an exception: "which, although never dominant in any period, continually appears as a subsidiary mode of production—and one which is frequently very important."<sup>4</sup>

A counter-argument to the position of a historical correspondence, at least for simple commodity exchange, has been presented by M. Morishima and G. Catephores.<sup>5</sup> They opt, instead, for an interpretation of the scheme of transition from simple commodity exchange to capitalist production as "a purely logical tool," or "logical simulation," arguing on the basis of internal evidence of Marx's texts as well as of factual evidence. This latter position is consistent, in the main, with earlier arguments of Althusser and Balibar, Bettelheim, Dobb, Emmanuel, Rosdolsky, and Rubin.<sup>6</sup> The recent work of

Cutler, Hindess, Hirst and Hussain, accepts the view that this transition is "part of a process of conceptual abstraction," but goes on to reject altogether the validity of the conceptualization as they see it.<sup>7</sup>

The work of Paul Sweezy stands closer to this latter group. His *Theory of Capitalist Development* provides an early and forceful statement of Marx's use of the abstract analytic method and, consistent with this, interprets simple commodity exchange as an analytic device: "Here we have the problem of exchange in its clearest and most elementary form." Similarly, Sweezy emphasizes the analytic advantages of this device: "Such a theoretical construction is useful for a number of reasons: for example, it enables us to present the problem of exchange value in its simplest form; and it is also helpful in clarifying the nature of classes and their relations to the means of production."<sup>8</sup>

A fundamental and unanswered question remains in all of this discourse. Namely, if these forms are to be viewed as meaningful analytical categories, then what are the specific abstractions which they contain? What are the key substantive elements which characterize and differentiate them? This is the primary question which the argument presented here seeks to answer.

Examination of the internal logic of these three forms of circulation, as set out in this paper, reveals that they have an inherent inability to stand on their own or apart from each other. They display a tendency either to coalesce into the abstract conditions of capitalist production properly constituted, or to fall apart for lack of a principle which gives them consistency and determinacy. The resolution of this difficulty comes only through an attempt to constitute the essential logical foundation of all three forms in capitalist commodity production as such. In this way, it is possible to arrive at a determinate conception of the *system of capital* in terms of its abstract and general conditions and its inner contradiction.

In particular, the first of these forms, simple commodity exchange, is often counterposed to the second, merchant capital, as if they were mutually opposed. The question remains as to what is the precise nature of that opposition. It is argued here that these two forms reveal, in their mutual opposition, the essential principle of the contradictory unity of capitalist commodity production, which is the contradiction between use value and exchange value as two poles that are united in the commodity. That opposition is therefore to be considered as the expression of a contradiction within the capital relation itself. Both forms of circulation are thus embedded within that relation and are not separate or mutually exclusive. They are simply different aspects of the logic of that relation or different moments of a unified system.<sup>9</sup> As regards the second and third of these forms, merchant capital and industrial capital, they are often presented as if they were different forms of capital, having an identifiably separate existence not only on an historical level but also on a conceptual level. It is argued here that the second, viewed as a form of

capital, is essentially incomplete and contradictory. It becomes complete only by its incorporation and absorption with the third into the system of capitalist commodity production. Altogether these three forms then turn out to be just so many logical steps in the process of reasoning out and constructing the innermost structural properties of that system.

These three forms of circulation are, thus, to be properly considered as different aspects of the logic of the system of capitalist economic relations. They are different theoretical abstractions constructed in a process of reasoning out the complex internal logic of that system and for the purpose of developing systematically the inner structure of the capital relation itself. They each contain, in their own one-sided way, essential elements of that relation. Furthermore, they are not to be regarded as corresponding to an inevitable linear and chronological development from a "simple" or "early" form of society to an "advanced" form. Rather, it is presumed that the historical process of emergence and development of the capital relation is a problem which has to be confronted directly on its own terms. Furthermore, if there is a problem of periodization of the historical development of capital, that problem also requires a specific analysis. For any such analysis, it is necessary to have a proper theoretical conception of the complex structure of the capital relation itself.<sup>10</sup> This is the conception that these forms provide and it is subjected here to systematic examination.

### *Simple Commodity Exchange*

The conception of simple commodity exchange, or "the simple circulation of commodities," is the first step in that logical development described in the preceding discussion. It posits a sequence in the form of

$$C_1 \rightarrow M \rightarrow C_2, C_1 = C_2.$$

This involves a movement in which the commodity owner brings to the market an amount of commodities,  $C_1$ , which the owner sells for an amount of money,  $M$ . With this money the commodity owner then purchases an amount of commodities,  $C_2$ . It is assumed that, except for accidental circumstances, the exchange is in general characterized by exchange of value equivalents, so that  $C_1 = C_2$  in value terms. This movement is repeated from one cycle to another and takes the same form in every cycle.

It is evident that there are two phases in this sequence. The first entails the transformation of commodities into money, the second the transformation of money into commodities. It is a sequence consisting of a sale followed by a purchase, or a process of "selling in order to buy." The object of the exchange is a purchase: the acquisition of new commodities in the specific form of the



bundle  $C_2$  that are different from those of  $C_1$  which the owner brings to the market. The motive of the movement, its driving force, is the goal of acquiring the use values embodied in the commodities  $C_2$ , and the circuit therefore terminates in the consumption of the acquired commodities. Though the movement may be repeated from one cycle to another, its essential character remains the same. Specifically, commodities constitute the beginning and end of every transaction and the movement is directed towards the goal of acquiring use values embodied in those commodities.

But, whereas the commodities which end the movement are use values from the point of view of their purchaser, the commodities which begin the movement are not to be so regarded. Rather, they are, for the owner, exchange values in the sense that the owner seeks to separate them from himself, or to alienate them, in exchange with other commodities. With regard to the substantive character of the commodities being traded, the situation is the exact opposite for the other commodity owner on the other side of the exchange. For him, the commodity which the other owner purchases from him is an exchange value, the commodity which the other sells to him is a use value. Exchange value and use value are thus two poles of the movement which are reversed for the particular commodity owners engaged in the interchange. They are nevertheless united in the same commodity, and similarly in each and every commodity. In general, they constitute the two-fold character of the commodity and its defining properties as a commodity.

It is commonly supposed that the characteristic and defining feature of simple commodity exchange is that it is driven by the object of realizing use value. That is regarded as the distinctive element which sets this form of exchange apart from the rest. However, as will be argued subsequently, the object of realizing use value remains within the capital relation itself. It is not eliminated, nor can it be suppressed, in the transition to that relation. Moreover, even at this stage of the argument, it is clear that both use value and exchange value are united in the commodity and together constitute its substantive character. What could be said here is that the conception of simple commodity exchange expresses the object of exchange as use value, pure and simple. It expresses sharply one side of the commodity form, its qualitative character as use value. In this way this conception abstracts a specific feature of the logic of the fully developed system of exchange relations. Insofar as use value is truly a property of that system, it must be given its specific and intrinsic place when that system has been fully constructed. But it is evident from the construction as presented so far that the use-value character of the commodity is simply posited, not systematically derived.<sup>11</sup> To avoid its collapsing back into the system of subjective individual preferences, use value must be given a social determination within a social process in which production and consumption are mutually dependent moments of the same process. Within such a process, the use-value character of the commodities is given to them by the fact

that they are products of a definite production process and that only those products become commodities which are capable of satisfying needs that are social because they are formed within the same social process. That process, in the case of capitalist commodity production, is the motion of capital itself.

Money plays a necessary mediating role in simple commodity exchange. It is the medium for achieving the object of acquiring use value. The specific character of money in this case is that of means of payment, the means through which the exchange of commodities is facilitated. But the existence of such a monetary medium presupposes that there exists a network of exchange bringing together a multiplicity of commodity owners with a multiplicity of different commodities. It presupposes, moreover, that exchange is a regularly recurring activity and a pervasive feature of daily life, not an arbitrary occurrence such as the result of an accidental meeting of two commodity owners for the first time. In the former circumstances, money itself is then not a mere medium but possesses an intrinsic quality, that of being a universal standard for expressing the equivalence of commodities, or a "universal equivalent standard." At the same time, this quality must give it the capacity of being a universal command over commodities. It therefore has the potential, latent within it, of breaking through the narrow limits of its existence as a mere medium and coming thereby to acquire the power of capital, with a drive and a capacity for its own expansion through the exchange of commodities.<sup>12</sup>

This tension within the monetary medium reveals the inherent tendency of simple commodity exchange to become transformed into its opposite, the conditions of capitalist exchange. This is because, already in its conception, it contains an element of the logic of capitalist exchange, an element which remains to be given full expression in the fully developed system.<sup>13</sup> Otherwise, in the absence of further specification, simple commodity exchange must fall apart for lack of determinancy as to the origin and source of the money which sustains the exchange and the intrinsic quality of the money itself which allows it to perform that role.

If simple commodity exchange is to be posited as a system of exchange, then the very existence of exchange must be given a systematic necessity within the ongoing activity of the commodity owners. It must be rooted in a condition which binds them together as a matter of necessity and not of whim, and hence a condition which absorbs their ongoing activity, thereby bringing them all into intercourse with each other in the normal course of that activity. In this sense, the exchange relation must be grounded as an intrinsic element of social life. The origin of the commodity itself must be specific to that system of social life. Otherwise, its existence becomes wholly arbitrary, to be posited as a mere "possession" or "endowment," presumably bequeathed by Nature. In that case, the accounting of the exchange relation would be left open for introduction of a principle such as that of subjective utility, a principle which is ultimately outside of social life.

In order to provide a social determination of the exchange relation in the above specified sense, exchange must be rooted in a social division of labor among producers who are specialized to the production of specific articles of need. The characteristic mode of existence of such producers is that they produce for their own needs only by producing for the needs of others. Production on the part of such producers is for the market and not for self-consumption. Exchange, under such conditions, is a matter of necessity for the producers and the origin of the commodity is in their ongoing activity of production.

But what would be the principle which underlies and gives meaning to the social division of labor in such a system? Furthermore, what is it that makes the labor social, in the sense of having a quality of homogeneity and commensurability such that it is capable, in principle, of being divided up and summed as a social aggregate? It is usually argued in this connection that simple commodity exchange is based on specialization by independent producers owning their own means of production.<sup>14</sup> But within such a pattern of specialization, what is *labor*? Labor as a social category would have no real existence.<sup>15</sup> There could only be *work* in its undefined specificity to a particular individual fixed in his capacity for performing a specified set of tasks and bound to work with the particular set of means of production which constitute his property. Moreover, the commodities which originate from such a pattern of specialization must of necessity be imprinted with the specific characteristics of the particular producer and be limited by the conditions of his productivity. They cannot therefore be imbued with the qualities of universal exchangeability and usefulness which make them capable of existing and passing freely among a universe of commodity producers and consumers. They cannot therefore be commodities in the strict sense.

The fact is that the commodities which are the object of exchange in simple commodity exchange are presumed to be *values*. They are equated as values, as a necessary condition of the exchange, and their equation presupposes that they are values.<sup>16</sup> This equation can be made to be a condition of the exchange only if there is a quality of commensurability and comparability in the objects themselves. As commodities, and hence as values, they must therefore embody a distinctive quality. That quality is given to them by the fact that they are the products of a definite kind of laboring activity. It is this specific kind of laboring, not arbitrary laboring but laboring under definite conditions, which is capable of imbuing them with the quality necessary for their equalization. The unique character of this kind of laboring is that it is constituted on the basis of "abstract" labor, labor which is made general, or abstract, by the fact that it is carried out under definite social conditions and hence is labor which is fully social in character. It is socially equalized labor. What gives the commodities their quality as values, then, is the fact that they are products of labor in this sense. Their substantive character as values is that they embody abstract labor.

This is the full thrust of Marx's reasoning on the nature of the commodity.

Thus, there is a necessary presumption, in the conditions of simple commodity exchange as posited, that abstract labor is embodied in the commodities. Now, it is evident, upon further analysis, that abstract labor is labor which is specific to capital, labor which works with and for capital, labor which is activated within the economic and social order constituted by the capital relation.<sup>17</sup> It is labor which therefore exists under definite conditions. Included among these conditions, for instance, is the mobility of the laborer, his freedom to pass from one occupation or line of employment to another, in which passage all differences among particular concrete labors may be abstracted from so that what emerges is the fluid, homogeneous quality of the labor, hence its character as abstract labor. This condition, in turn, presupposes that the laborer's capacity to labor, his labor power, is itself a commodity available for sale to any buyer. Moreover, it is capital itself which produces that mobility of labor, by its ceaseless drive for expansion through constantly revolutionizing the methods of production, calling thereby for adaptability of the labor to ever-changing conditions of laboring, and by the ever-present competition of capitals which that expansion entails. If these are the conditions which must be presumed in order to give meaning to the conception of value in simple commodity exchange, conditions which are specific to capital and therefore presuppose capital, then it is evident that this conception must itself also presuppose capital. It must be predicated upon the existence of capital, and of capital in its fully developed form. There is therefore no way in which this conception can be logically sustained in the absence of the capital relation duly constituted as such.

It is also assumed in this conception that there is a certain definite condition of quantitative equality which the exchange must satisfy as an outcome of the workings of the system of exchange. The exchange cannot therefore have an arbitrary outcome. Specifically, this is the condition that, in value terms,

$$C_1 = C_2.$$

This condition is as much a requirement of any single transaction as of any other. It is therefore a requirement that the whole system of exchange must satisfy. Consequently, the workings of the whole system of exchange cannot be arbitrary. The precise meaning of this condition is that the commodity owner must be able to obtain from the exchange an amount of value which is equivalent to that which he has himself brought to the exchange. Insofar as the commodities which he owns are produced (and we here run up against the problem of specifying the exact origin of the commodities or of the value which he brings with him) then this requirement means that the producer must be able, through exchange, to replace fully the labor power and the means of production which were used up in producing those commodities. If he obtains a smaller

amount of value than was put into the commodities, the producer cannot replace the labor power and means of production and, hence, cannot sustain or reproduce his productive activity in the next cycle. If he were to obtain a greater value than was put in, then some other producers must obtain less, and so the same result holds in this case also for those other producers. The same is true the other way round for all the other producers. Correspondingly, if the requirement holds for one producer it must hold for all and, hence, for the whole system of interdependent producers.

The requirement of quantitative equality in the exchange is thus a requirement of a specific necessity which the system of exchange must satisfy. In particular, it must enable each and every producer to reproduce himself as a producer. Hence, it must enable the whole interdependent system of producers to be reproduced as such. This condition, if satisfied, thus ensures restoration of the integrity of the producers as independent, autonomous commodity producers, and, hence, of the social relation among them as one of equality as commodity producers.<sup>18</sup> In this manner, then, quantitative equality corresponds with qualitative equality, and they are mutually reinforcing. The outcome is the preservation of the system of commodity producers as a system. In these respects, the whole process comes to acquire the intrinsic character as *a process of the conservation or preservation of value*.

This condition thus expresses the idea of social reproduction in this sense. It is a condition which can be seen to have fundamental significance for the conception of the process in terms of positing the continuity and self-sustaining character of the process. It is evidently a necessity only insofar as social reproduction takes place in and through the exchange relation and insofar as it is presumed that reproduction is a substantive feature of the ongoing social process. The problematic of reproduction thus arises in the context of a system in which social life is permeated and spontaneously organized by exchange relations. It is a feature of the analysis of a specific form of society, that is, a society based on exchange, or a system of commodity exchange. It appears in its simplest form in the context of simple commodity exchange where it anticipates the deeper complexities of the fully developed system.

However, it must be asked, in this connection: What is the mechanism which generates that specific condition of quantitative equality in the exchange *as a result*?<sup>19</sup> Note that it is strictly a condition of equality in value terms, that is, in terms of the quantity of labor time embodied in the products exchanged. In this respect, exchange in this system may be said to follow the rule of proportionality in terms of the labor embodied in commodities. It is the rule of exchange according to labor value or, simply, *the labor value rule*. But the effectivity of this particular rule of exchange evidently presupposes a mechanism of interaction among the producers, consistent with their status as independent, autonomous commodity producers. In particular, this must be a mechanism such as to bring about a distribution of labor in the different

branches of production which ensures that no producer in any branch obtains a greater or smaller amount of value in exchange than corresponds to the amount of labor time expended in production and, hence, that no producer has an advantage or disadvantage over any other. It is, accordingly, a mechanism of distribution of labor according to the principle of "equal advantage" of production in the different branches.<sup>20</sup> This, in turn, presupposes that the producers themselves are driven by a specific motive, the motive of capturing any and all opportunities for "gain" in terms of the difference between value received and value expended. It presupposes also a disposition on the part of all producers, as a consequence of the interaction taking place among them, to "economize" labor time in terms of the specific methods of production which they employ and of the specific branch of production in which they come to engage.

These are stringent requirements which must be satisfied if the condition of equality of exchange is to be established as an intrinsic property of the system and not become a purely accidental or arbitrary feature. They may be characterized *in toto* as requirements of "mobility" of producers. These requirements, as enumerated here, are so stringent as already to anticipate the conditions of the capitalist exchange system. Yet, as will appear subsequently, the labor value rule is not in general consistent with capitalist exchange. Marx himself presumes that the labor value rule holds, in the case of simple commodity exchange, "so long as the means of production involved in each branch of production can be transferred from one sphere to another only with difficulty and therefore the various spheres of production are related to one another, within certain limits, as foreign countries or communist communities."<sup>21</sup> In a similar way, others such as Hilferding presume that it holds when "the laborer who produces on his own account cannot change his sphere of production at will."<sup>22</sup> But if such immobility between the different spheres of production did exist, this would appear to contradict the condition of equality of exchange expressed in the labor value rule which requires for its existence that there be "mobility" in the above defined sense. Consequently, the condition of equality, as a quantitative and qualitative condition of the exchange system, would be left without any logical foundation.<sup>23</sup>

In conclusion, we come, therefore, in our investigation of the conditions of simple commodity exchange, to the recognition that it embodies and expresses some of the elementary and essential features of the capital relation. It is an abstract category which must now be seen to express something of significance. What it expresses are simple but essential elements of the capital relation which anticipate their incorporation into the fullness of that relation. It is not therefore a system which is separate from capital. It is a system which makes no sense in the absence of capital. It therefore awaits, for its full determination, the development of the capital relation in its fullness and entirety. It is, of course, necessarily incomplete. It simplifies the logic of the relationships of the fully



developed commodity exchange system. Hence, it is only *simple* commodity exchange. In these respects, it also tends to distort the conditions of the fully developed system considered in their totality. These are the limitations of this particular construction which can only be overcome by articulating the conditions of the full system.

The logically incomplete and seemingly contradictory nature of the conception of simple commodity exchange, in its usual presentation, can be traced back to its origins in Adam Smith's notion of the "simple and rude state" of society which is supposed to precede historically the appearance of capitalist society. To some extent Marx, by taking over this construction from Smith, also takes with it some of its underlying confusions.<sup>24</sup> It becomes fully coherent and determinate only when it is transcended by construction of the logic of capitalist commodity production. It then acquires meaning within that construction.

### *The Circulation of Capital*

The second stage in the argument is the construction of capitalist commodity exchange or the circulation of capital. It entails a different form of intermediation, because it is based on a different set of interrelationships. This conception posits a sequence in the form of

$$(2) \quad M \rightarrow C \rightarrow M', \quad M' > M.$$

In this case there is a movement beginning with the advance of a sum of money,  $M$ , by the owner of money to purchase an amount of commodities,  $C$ . Those commodities are then sold in return for an amount of money,  $M'$ , which is assumed to be greater in magnitude than the initial advance. This exchange thus results in an increment of money equal to the difference  $M' - M$ . The realization of that increment, and on an ever-expanding scale from one cycle to another, is presumed to be the object and driving force of the movement.

In this form of circulation, it is the owner of money who initiates the sequence and not the owner of commodities. Thus, as is evident from the initial point in its conception, this form is based upon a different social relationship. Money is, of course, a commodity, but it is a peculiar commodity which has a distinctive character. It is a commodity which is the universal embodiment of all commodities, the universal expression of value, and therefore it is not specific to a particular commodity. It is a command over all commodities or simply abstract purchasing power. The owner of money, as the owner of that peculiar commodity, therefore occupies a distinctive social position: the position of being able to advance the money to purchase commodities and to realize through the re-sale of those commodities an increment of money,  $M' -$

$M$ , which is positive.

What is distinctive also about this form of exchange is that its driving force is different: it is directed toward the goal of realizing an increment of money. This is a difference which expresses itself in the specific sequence of phases that the movement entails. In particular, the first phase in the movement is the exchange of money for commodities, or a purchase. The second phase is a sale which realizes the increment of money. As in the previous case of simple commodity exchange, the movement is a combination of antithetical phases, a purchase and a sale. But there is in this case, as compared with the previous one, an "inverted order of succession" of the two phases. It is a purchase followed by a sale or a process of "buying in order to sell."

There is, in these respects, a qualitative difference between the two forms of exchange. They contain a qualitatively different social relationship and that relationship is driven by a different object. The difference is expressed in the inversion of the order of sequencing of the phases of the movement.

The movement, in this case, begins and ends with money. This means that money is of fundamental significance here in a way which is different from the previous case. In the previous case, money is a facilitating condition of the exchange, which allows for the carrying out of the exchange. In this case, money, or the acquisition of more money, is the object of the exchange itself. Money is the goal of the movement. Moreover, it is the goal insofar as the acquisition of more money in one cycle is the acquisition of a greater command over commodities as exchange values which can, in turn, be sold to return an even greater quantity of money in the next cycle, and continuing in this way in an endless spiral. Thus, money ends the movement only to begin it again, and the movement itself becomes an interminable cumulative process of the increase of money through the buying and selling of commodities. In this respect, the circulation of money as capital is an end in itself and it has no limit. The object of the movement is the expansion of money, or the expansion of exchange value in the form of money. It is a process that is fundamentally rooted in a limitless drive for expansion. Money serves here, then, not merely as a medium of circulation but as the object for realizing that drive for expansion, and hence as the object of accumulation.

Commodities enter into this process uniquely as embodiments of exchange value. All semblance of their capacity as use values is thereby suppressed and eliminated from the movement. They are acquired by the owner of money not as use values, that is, for his direct consumption, but rather in their capacity as saleable items which can yield a money increment. They enter the process as exchange values seeking a monetary form, but only to leave it again so that money can realize itself as more money. They are simply objects which money alternately attaches to itself and subsequently throws off in order to achieve its goal of ceaseless expansion. It is as if nothing is known either of whence these objects came or of what usefulness they may have. Evidently, this is completely



a matter of indifference for the owner of money.

This construction thus focusses sharply upon one side of the commodity form, its property of exchange value, to the complete exclusion of the other side, its property of use value. In this respect it is indeed opposed to the previous conception in which the use value character of the commodity, and hence the object of acquiring use value, is at the center of the treatment of exchange. Viewed as separate and independent entities, these two constructions thereby manage to tear apart the two-fold character of the commodity and to set them into mutual opposition. That there exists a unity of these two qualities in the commodity would thus appear to be negated at this stage of the argument. The precise form of the unity remains, however, to be constructed in the further working out of the logic of the capital relation. If the opposition of use value and exchange value is a real condition, it should then be recreated as an opposition within the capital relation itself.

In simple commodity exchange, any difference in value between commodities  $C_1$  which begin the movement and the commodities  $C_2$  which end the movement is purely accidental. Rather, equivalence in value of the commodities exchanged, is a necessary condition of the normal course of the movement. It is not quite so with the circulation of capital or, rather, as will appear when the analysis is fully worked out, it is so, but with a profound difference. In the conception of the circulation of capital, there is a systematic difference in money value, equal to the difference  $M' - M$ , which arises from the exchange. This is so for every exchange in which money circulates. It is therefore true for the whole system of exchange. Furthermore, it is the realization of that value difference which is the object of the movement of money in each and every exchange and hence in the whole system of exchange. In this case the whole system is therefore presumed to undergo a systematic and necessary expansion of value in terms of the advance and return of money. We may say, in this respect, that whereas the previous case is marked by the *preservation* of value, the present case is marked by the *expansion* of value. Thus, the characteristic feature of the circulation of capital is that it is a process of the expansion of value in terms of money, or a value-expansion process.

Now, we have seen that the condition of value preservation is necessary to the system of exchange, and for a definite reason. The reason is that it is a requirement of the continuity and renewal of the producers in that system and hence of their reproduction as producers. This is a condition which must hold in any self-reproducing system of commodity producers. Therefore it must hold in this system as well. The question consequently arises, if the condition of *value preservation* is to be satisfied, whether that condition can be made to be consistent with the condition of *value expansion*. This is a question which is of fundamental significance for the theoretical understanding and determination of the system of circulation of capital. It is a question which arises at this stage of the argument as a matter of the inner logic and self-consistency of the system

of relations as posited. It has to be resolved, therefore, in terms of the theoretical conception of the logic of those relations. It cannot be settled by an appeal to any set of historical "facts" or "events." It is, furthermore, a question which anticipates a central feature of the problematic of the fully developed system of relations.

We confront here, at this stage of the argument, what is essentially a contradiction in the conception of capital as posited up to this point. The problem is to explain how it comes about, within the internal logic of the system of relations, that such a value difference emerges from exchange, consistent with the understanding of the exchange as based upon necessary equality of the values exchanged. Is that difference systematically generated within the exchange system itself? Or is it, rather, an arbitrary, accidental or random occurrence due, for instance, to the discovery of a special kind of commodity on which the owner of money can realize a "mark-up" by "buying cheap and selling dear?" Could that commodity then be regarded as a *value* in the strict sense already identified? It must be granted that there is nothing within the logic of the conception as it stands which would account for the generation of that value difference. That difference must therefore be regarded as wholly arbitrary or accidental. What is evidently missing here is a necessity for the expansion, a condition which would somehow make that expansion self-generated and self-sustaining. Until that condition has been articulated, the logic of the conception of capital remains essentially incomplete or indeterminate.

If the origin of the value difference is problematical, as also is the conception of the difference as value, what can be said about the presumed drive on the part of the owner of money to realize that difference, hence to expand his money capital, or to accumulate capital? This is the other side of the problem of providing a systematic necessity for the value expansion, hence making it a condition that is fully self-generated and self-sustaining.

It is presumed here that the drive for expansion is a characteristic of capital itself, and hence of each and every unit of capital. It is an inner drive which is fulfilled only through expansion. It is, so to speak, in the nature of capital to expand. Expansion is its natural state. Marx clearly identifies that inner drive, which is the motive force of expansion, as being in the nature of capital as such. Hence, the capitalist is "capital personified."<sup>25</sup> It is not that capital is a person, but that the person is capital. By implication, it is not the individual will of the capitalist as a person, hence his personal psyche as a depository of private lust and greed, which accounts for this drive. Rather, it is his situation within a social process. That social process, therefore, is what accounts for the necessity of the drive for "profit" and makes it not an arbitrary personal choice or psychological disposition on the part of the particular individual who owns or has a legal association with the capital.

To claim, therefore, that the circuit is limitless and its goal is expansion of capital as exchange value, is to make a substantive claim about social laws

governing the exchange. Capitalists are driven by a force which is socially determined, embodied in the social process independently of the individual will of the particular capitalist. In this respect, the objective of expanding exchange value is *enforced* on all capitalists. Their ability to survive as capitalists is predicated upon the extent to which they fulfill the requirement of expansion. Otherwise, they are unable to survive. In this way, expansion becomes a property of the capitalist circulation of commodities, not a psychological or individual whim, but a socially enforced drive.

Within the conception of the circulation of capital as presented so far, the problem then is: What is that social force? What is there, within the realm of the interaction of the different capitals, which reinforces and sustains their drive for expansion? What is that force which makes it not only an inner drive but a social necessity hence converting the inner drive into a social imperative? The answer to be found within the Marxian conception is that the force is the *competition of capitals*.<sup>26</sup> Competition makes it a necessity on the part of each and every capital to expand in order to survive in the quest for possibilities of realizing profits. With competition, expansion becomes established essentially "as a means of self-preservation and under penalty of ruin."<sup>27</sup> Competition, in this sense, is a struggle among the different capitals to garner, each for itself, the possibilities of value expansion, or to carve out for itself, the conditions for generating the value expansion. But how could that competition exist in the context of this system as posited? What could be its substantive basis in such a system, where the very possibilities of value expansion come from outside the system and therefore have to be accidentally "discovered?" Evidently, competition in the sense required and presupposed by this conception, can have no meaning when the objects of competition are not themselves created by capital, are not the result of capital's own process. We thus arrive here, again, at the point of recognizing an essential indeterminacy in the conception of capital in this form.

This form of the circulation of capital, Marx argues, "appears certainly to be a form peculiar to one kind of capital alone, namely, merchants' capital." But in reality, he argues further, it is not so peculiar. It is rather "the general formula of capital as it appears *prima facie* within the sphere of circulation." As such, it is the characteristic form of the circulation of capital, regardless of its particularity as merchants' capital, industrial capital, or interest-bearing capital. For this to be so it must be that, as Marx argues "the events that take place outside of the sphere of circulation, in the interval between the buying and selling, do not affect the form of this movement."<sup>28</sup>

But the peculiar character of this form of circulation of capital, a character which the present investigation has demonstrated, is its inability to find within its own movement the conditions for value expansion or, indeed, for its existence as a value relation. That is to say, it is incapable of achieving its full consummation as self-expanding value. This is so, first, because the com-

modities which enter into its circuit originate entirely outside of that circuit. Their availability as commodities is wholly conditional and contingent, depending on circumstances which are, from the standpoint of that circuit, purely fortuitous and accidental. Insofar as they are produced commodities, their character as products is uniquely related to the particularity of the concrete labor expended upon them under conditions that are wholly outside of the circuit and not at all to the expenditure of abstract labor as a universal substance determined within the circuit. They can therefore have no status as embodiments of a value relation. Second, and following from the first, it is because the competition which is supposed to sustain the drive for expansion is itself without a foundation in the ongoing social process of interaction among the capitals.

The form of circulation appropriate to such conditions must necessarily be capricious and parasitic, giving rise to the creation and expansion of wealth as a matter of "fortune," "luck," or "discovery," rather than as the regularly recurring feature of a process of sustained self-expansion. Circulation in this form cannot therefore be treated as a mere form. It has a substantive character which is specific to its parasitic position within the system of economic relations. Its presumed general character as the formula of capital thus remains at least in doubt or, otherwise, awaits a further logical development in the absence of which the general formula itself is lacking in a full determination.

This tension within the formula of merchant capital, its incapacity to serve as the general formula of capital, drives towards its theoretical reconstruction as fully developed capital. This might also be interpreted on an historical plane as the basis of a necessary drive for transcendence, hence of a process of social transformation by which concrete forms of merchant capital internalize their own conditions of expansion. But that interpretation would itself be of dubious validity. It is negated by the observable historical record of highly developed systems of merchant capital which failed to bring about such a social transformation for a considerable period of time (e.g., Holland, Italy, Spain, Portugal). Marx himself points out that there are two possible historical paths to the development of capitalism. One is the route by which there occurs an internal transformation within production itself, so that the producer becomes merchant and capitalist. "This is the really revolutionary path." The other is the merchant capital route, by which the merchant comes to establish direct sway over production. This he regards as the weak path, in which merchant capital may become eventually "an obstacle to the real capitalist mode of production and goes under with its development." Marx concludes that the independent development of merchant capital "is incapable by itself of promoting and explaining the transition from one mode to another." He goes so far as to propose as a law "that the independent development of merchant's capital is inversely proportional to the degree of development of capitalist production."<sup>29</sup>

Whatever may be the specific role of merchant capital in the concrete historical process of transition to capitalism, and this is necessarily at this level an open question requiring a more concrete investigation, the result derived from the preceding theoretical analysis provides nonetheless a precise understanding of the general character of the various concrete forms of merchant capital which have historically preceded the full development of capital. In this respect, this result, as regards the contradiction and indeterminacy of the conception of capital in its form as merchant capital, is of considerable analytical significance. In particular, this result demonstrates that merchant capital is a form which is necessarily contradictory and contingent. Specifically, it has the character that it is inherently incapable of sustaining itself in the absence of "other" conditions, which are not necessarily of its own making and which are, so to speak, outside of itself. It is, therefore, a parasitic form. Hence, we find historically that merchant capital has to wait upon the "discovery" of commodities. It is wholly dependent, in some cases, upon the expeditions of explorers and adventurers. In other cases it is dependent upon differences of "information" between remote communities, or upon differences in "natural" conditions, or upon a monopoly of trade routes. In the most persistent cases it manages, by force of conquest and imposition of control by an arbitrary state power, to latch itself on to pre-existing forms of laboring activity, sometimes restructuring them or creating them anew to serve its own end. In all of these circumstances, it is based upon conditions of "unequal exchange." Therefore *inequality of exchange* is of the essence of merchant capital.<sup>30</sup> This is the precise condition which is necessary for the generation of expansion to suit the goal of merchant capital. It is in this manner, precisely, that the inner contradiction between value preservation and value expansion is resolved. Capital in that form cannot then be considered a value relation in the strict sense. Besides, its very contradictory existence under those conditions must necessarily drive towards a transformation that leads to its reconstruction on a new basis.

All of this suggests, therefore, that merchant capital is not the pervasive and persistent form of capital. It is not capital in its fully developed or "pure" form. It is an incomplete and necessarily limited form. In a strict sense, it is not capital. The full constitution of capital as such requires yet a further theoretical development.

### *The System of Capitals*

The resolution of the theoretical issues exposed in the preceding discussion comes only through the attempt to constitute the essential logical foundation of the formulae (1) and (2) in the system of capitalist commodity production. It is therefore necessary for us to examine now, in detail, the anatomy of this system. The form of the movement in this case is represented by

$$(3) \quad M \rightarrow C(L, MP) \dots P \dots C' \rightarrow M', \quad M' > M.$$

This is the formula of capital. It is a movement which begins with the advance of money  $M$  to purchase commodities  $C$  consisting of labor power  $L$  and means of production  $MP$ . It goes through production  $P$  in which the purchased commodities are combined to produce new commodities  $C'$ . It ends in the sale of the produced commodities so as to realize an amount of money  $M'$  in excess of the amount initially advanced. The amount of this excess, expressed as  $r = (M' - M)/M$ , is the rate of profit which is the aim and object of the movement. It is a movement which ends in the realization of profit on the money advanced, but only to begin again through a subsequent advance of money so as to realize additional profits which are in turn converted into additional money, continuing in this way as a never ending spiral. As such, the circuit of capital is a movement based on the objective of profit for the purpose of ceaseless expansion. Its object is the accumulation of capital.

There are different phases of this movement in which capital itself also undergoes changes of form. The first is a movement in the sphere of exchange or circulation of commodities, involving the purchase of labor power and means of production, through which capital acquires the requisites of production. In this phase, capital exists in its form as *money capital* seeking to be invested in production. The second is a movement in the immediate process of production, consisting of the organizing and using-up of labor power and means of production to create commodities. Once it is thus embodied in production, capital alters its form to become *productive capital*. Finally there is a phase in which the commodities which are produced, and now embody the further altered form of capital as *commodity capital*, enter the sphere of exchange to be sold in order to realize their value in money.

Since the circuit is conceived to be circular, each such form of capital and its associated phase of the circuit may be considered the starting point of the circuit and its end point. There are then different forms of the circuit corresponding to each such starting point. There is, first a circuit of money capital which takes the form of the sequence already described in (3). There is, second, a circuit of productive capital, taking the form

$$(4) \quad P_1 \dots C' \rightarrow M_1' \rightarrow C_2 \dots P_2.$$

This starts with production, goes through exchange and ends in further production. There is, third, a circuit of commodity capital represented by the sequence

$$(5) \quad C_1' \rightarrow M_1' \rightarrow C_2 \dots P_2 \dots C_2'.$$

It begins with the output of commodities as capital seeking for its realization in



money and ends in a new output of commodities. These different forms of the circuit define different dimensions of capital in its complexity as capital, first as money, second as both means of production and labor-power united in production, and third as commodities embodying exchange value. Each and every such form of the circuit is a real aspect of the movement through which capital must pass in its drive for expansion. Correspondingly, failure to complete the transition from one form to another causes an interruption in the whole circuit and retards the expansion.<sup>31</sup>

Production and exchange constitute mutually dependent moments in the circuit which are bound together by an essential unity. In particular, production presupposes exchange because, in a developed division of labor, the means of production must be obtained through exchange between specialized and widely dispersed producers. Direct acquisition of labor power as a requisite of production necessitates a movement in exchange owing to the commodity character of labor power itself which is an essential constitutive condition of the capital relation. Moreover, it is only through their entry into the market, and their ability to find a market, that the value embodied in commodities can be realized. Altogether, the realization of capital, the fulfillment of its mobility, and its drive for expansion, are predicated upon market exchange for conversion of the products of capital into money, back into commodities, again into money, and so on. On the other side, market exchange presupposes production because it is through production and its associated division of labor that the commodities to be exchanged are created. The market itself is a specific market, created (in part) by all of the capitals taken together through the mutual dependence of the particular capitals in their ongoing activity of production. Capital thus traverses exchange and production, production and exchange, in the course of its movement.

It follows that within this circuit, as the properly constituted circuit of capital, circulation is united with production, and production with circulation. Together, they form an interdependent whole, definite and distinct moments in a single movement. It is the unity of these moments which gives continuity to the movement of capital and connectedness between the different forms through which capital moves.

The circuit of each and every unit of capital constituted in this form, and therefore the circuit of capital in general, is a movement which begins with the advance of a sum of money  $M$  for the purchase of commodities  $C$  and ends with the sale of commodities for a sum  $M'$ , where  $M' > M$ . The "general formula of capital" therefore emerges here and can be expressed in the abbreviated form

$$M \rightarrow C \rightarrow M', \quad M' > M.$$

In this form, the general formula of capital expresses the essential character of capital in its generality as capital, that is to say, as *value in motion*, as sum of

money alternately attaching itself to commodities, then realizing itself again as additional money and so on, in a process of ceaseless expansion. This character is immanent in capital as such, regardless of its specific form. But the distinctive feature of capital, which systematically differentiates it from the mere circulation of money as capital as in formula (2), is that it is a movement in and through production as one phase of the circuit interposed between a double movement in the sphere of circulation. It is this process as a whole, represented in terms of formula (3), which subsumes the general formula of capital and gives it its real substantive basis.

Production is here constituted as the activity of consuming labor-power and means of production to create commodities, an activity which is organized by capital and for the goal of capital. That phase of the movement is also the process of consumption of labor power in its form and substance as abstract labor, a substance made homogeneous by the total process of capital itself through the ceaseless mobility of labor and competition of capitals which that process entails.<sup>32</sup> It is that phase, therefore, in which the unique value substance, abstract labor, is embodied in commodities and which stamps them with their character as values.

The creation of a *surplus value*, on the basis of production organized in this way, becomes the unique source of the self-expansion of capital. This surplus value is, in turn, associated with the existence of labor-power as a commodity, purchased with wages, which has the unique capacity of being used in production so as to generate an amount of value in labor time in excess of what is required for its own reproduction. Specifically, the exchange of labor power, like that of every other commodity, is on the basis of equality of exchange: a value equivalent is paid for its acquisition by capital. But its use in production generates more value than is paid in exchange. That capacity of labor power constitutes its specific use value as a commodity. The capacity to produce that value increment as a regular and recurrent feature of the movement gives to capital its character as *self-expanding value*.

It follows that, in this system *value preservation* and *value expansion* now become mutually consistent. The specific condition of the exchange of labor power with capital and of the generation thereby of a surplus value is decisive for establishing this consistency.<sup>33</sup>

The rate of profit is the pivot upon which turns the whole circuit of capital. This is so insofar as it is the object of the movement and therefore the measure of its success. Moreover, it is the continued generation of profit and its conversion into additional capital that constitutes the expansion process of capital. As such, the rate of profit represents the difference between the amount of money realized from sale of commodities and the money advanced to purchase commodities. It is thus the quantitative difference between the end point of the circuit and its starting point. It thereby provides a measure of the whole movement as well as encompasses all the intermediate phases of the



movement. In no way, then, can the rate of profit be collapsed into a relation that is emergent or determined solely within the sphere of production or within the sphere of circulation without violating the logic of the conception of the circuit of capital itself.<sup>34</sup>

Now, the circuit of the individual unit of capital is itself imbedded within a network consisting of the circuits of all the individual capitals. These circuits, in their interlocking and interlacing, together form the system of capitals as a whole or "the aggregate social capital." They are linked together on the basis of the exchange of products which, in accordance with the unfolding division of labor, provides each and every individual capital with the requirements of its own sustenance in terms of both means of production and markets for its products. In this respect, the system of capitals is formed on the basis of a systematic interdependence among the capitals, and hence on the basis of *dependence*, each upon the next in a whole network of interrelations. Specifically this takes the form, as illustrated in Figure 1, that the commodity capital of one circuit enters the circuit of another capital as means of production thereby becoming part of the latter's productive capital (i.e., "constant capital"). Exchange thus consists concretely, in this instance, of the interchange of commodity capital with money capital, of capital with capital. Another form of interdependence, and hence of dependence, among the capitals arises from capitalists' consumption. In particular, capitalists purchase commodities from the circuit for their individual consumption, thereby constituting a market for commodities produced by capital. The difference in this case is that the commodity capital which circulates in this way is not exchanged with money capital to be consumed in production as productive capital and for the purpose of expansion of capital. Rather it is purchased out of the revenue for individual consumption and therefore falls outside of the circuit of capital. Whatever the case, it is through such exchanges, constituting a system of mutual dependence, that each and every capital obtains the sustenance necessary to its movement and expansion and, therefore, that the system of capital as a whole reproduces itself. In this way, it is evident that the circuit of each and every capital presupposes the circuit of other capitals, and therefore presupposes the system of capitals. The system of capitals is, in turn, predicated upon, and grows out of, the individual circuits.

The circuits of the individual capitals are linked together also on the basis of *competition of capitals*. This necessarily involves them in a relation of conflict with each other. The system of capitals thus entails relations of conflict as well as of interdependence among the capitals. But what is this competition? What is its substantive basis? This is a problem which we have encountered before, in the context of the previous conception of "merchant capital." In that context we discovered an essential indeterminacy in the idea of competition, if it is to be regarded specifically as a necessary condition within the interaction of the many individual capitals which at the same time reinforces the drive for

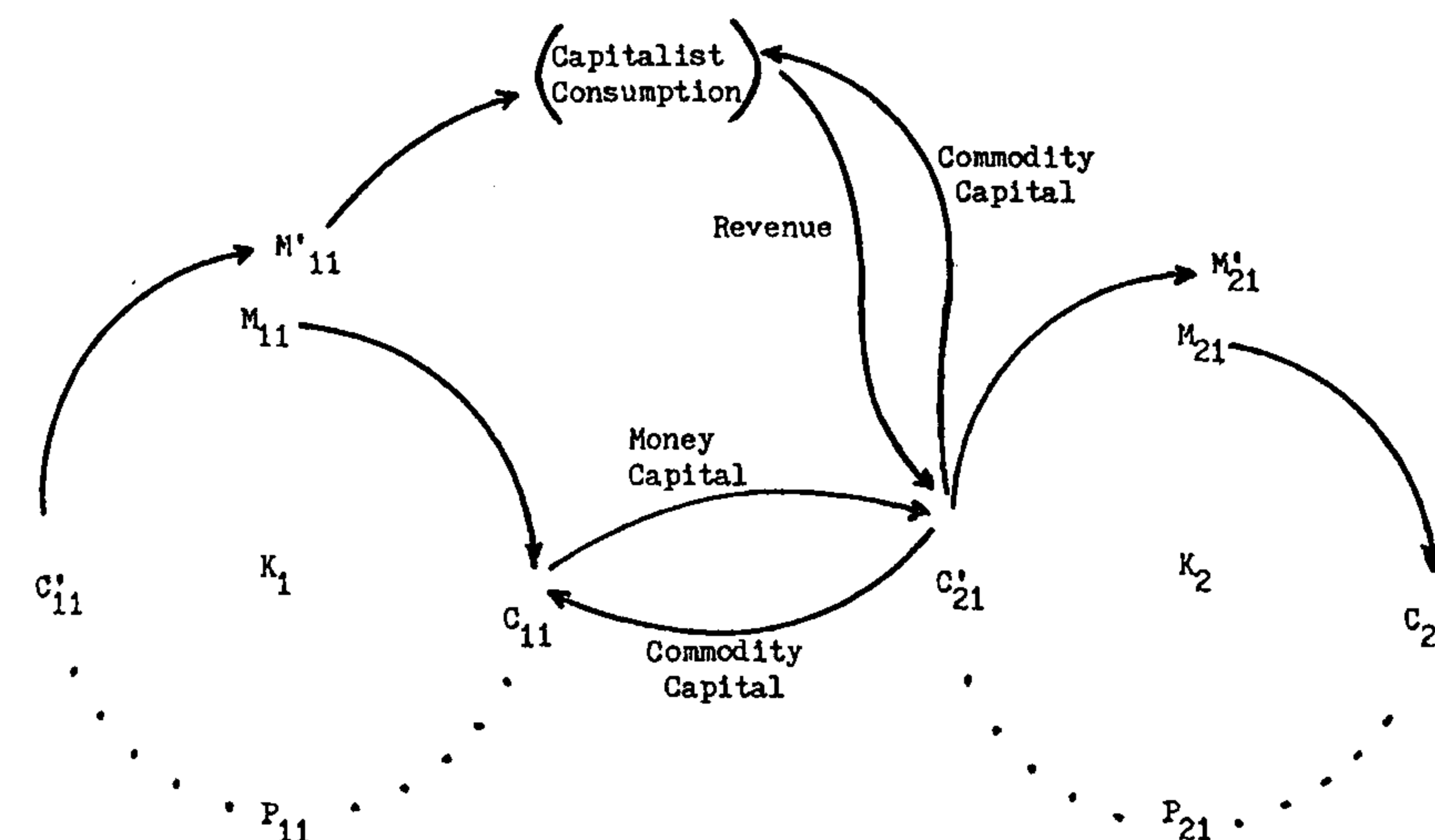


Figure 1

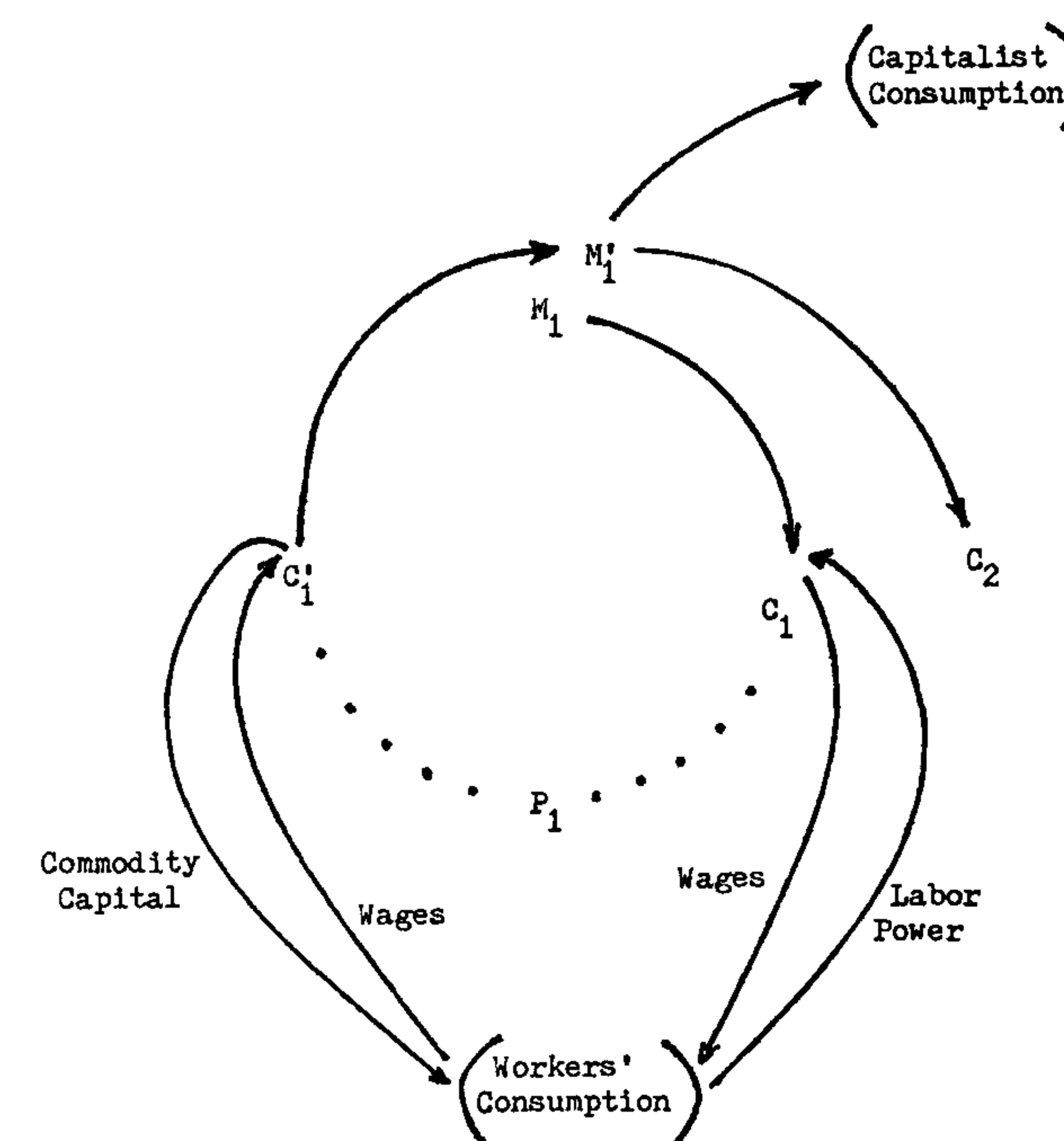


Figure 2

expansion on the part of each. It was found that there was, as yet, no real basis for this condition. In the present context, however, competition in this sense can be seen to have a real foundation. This is because it is constituted on the basis of production conceived to be organized and directed by capital to the goal of capital's expansion.

Production, when it is conceived in this way, becomes not only the real basis for the generation of the value difference, specifically as surplus value, which is the source of the expansion of capital. This production also becomes the real basis of both expansion and the competition which reinforces it. In particular, production becomes the basis upon which each capital is able to create the conditions for expansion in terms of the specific useful articles, judged as such by the market, which win for the particular capital a place in the market through which to realize the value increment. Correspondingly, the specific exchange values which each capital brings to the market as its commodity capital are of its own making and those specific articles are the instruments by which it is able to compete with other capitals. Both the means of expansion and the instruments of competition are thus created within the production process of each and every capital. It is the production process, furthermore, which creates the value difference, as the source of the expansion, needing to be realized through confronting the market in which all the particular capitals compete. Thus it is on the basis of production that each and every capital is able to propel itself into the market with a capacity for expansion and, simultaneously, is forced into collision with other capitals with the instruments for competing with them. In these respects, *production is the basis of both expansion and competition*. The competition in turn becomes capable of reinforcing the expansion and the expansion drives the competition. They are mutually dependent features of the whole process, and none can be considered prior to the other.

### *Capital as a Whole*

Further consideration needs to be given to the sphere of exchange in which capital realizes itself. In general, it is not to be conceived as being exclusively the sphere of exchange of capitals, or of capital with capital. This latter includes only the exchange of commodity capital with money capital and therefore falls entirely within the circuits of capital as such. But the sphere of exchange in general extends beyond the circuits of capital to encompass other spheres.

These other spheres include, first of all, the market for labor power, the distinguishing feature of which is the unique character of labor power as a commodity. Specifically, labor power is purchased with the wage out of money capital and in turn becomes part of productive capital (i.e., "variable capital"). For their own consumption workers purchase, out of the wage received, commodities which are produced by capital. These commodities, in turn, enter

into the reproduction process of their labor power so as to preserve it for capital. The market for their labor power thus has a dual linkage with the circuit of capital (see Figure 2). One is the exchange of labor power with money capital. The other is the exchange of wages for commodity capital. From the standpoint of capital, the wage, insofar as it is paid out of money capital, is capital. It is money capital advanced with the objective of a money return and it must therefore yield a return like any other component of money capital. The labor power, once it is purchased, also becomes capital. It becomes part of productive capital to be consumed with the objective of value expansion, like other components of productive capital.

But labor power as a commodity is not itself directly produced within any circuit of capital. It is not commodity capital. It is capable of expansion with capital, and as a result of the accumulation process of capital. However, its conditions of availability are not wholly created by capital. Its process of production and reproduction is constituted on an entirely different basis from that of commodity capital. This is necessarily so in principle and not as a matter of historical contingency. This therefore constitutes its uniqueness as a commodity. Therein lies also the possible source of a contradiction. In particular, the circuit of capital presupposes, as an essential condition of its existence, the regular and recurrent availability of labor power as a commodity freely bought and sold in the market to be consumed in production consistent with the drive of capital for ceaseless expansion and under continually changing conditions of production. Yet, the conditions of availability of that commodity are not wholly created by capital itself. This is a structural feature of the system of capitals which evidently calls for an explicit analytical treatment in constructing the logic of that system.

The process of production and reproduction of labor power thus requires additional specification. It is an aspect of the problematic of the capital relation itself. This problem appears in a wide variety of different concrete contexts in contemporary discussions.<sup>35</sup> The present analysis points to the generality of the problem and to its location at the level of the conception of capital itself. It points also to the possible source of a contradiction which requires further elaboration and analysis.

Without going further into this matter here, we note that, while constituting a market for the circulation of commodities, in which capital itself circulates, the market for labor power involves a movement outside of the circuits of capital. The system of capitals is therefore *open*, in this specific sense, with respect to the market for labor power. That market is a movement which, from the standpoint of capital, properly fits the sequence  $M \rightarrow C \rightarrow M'$ . From the standpoint of the worker as owner of labor power it fits the sequence  $C \rightarrow M \rightarrow C$ . Both forms of the movement indicate that it is a movement not fully established on the basis of capital, and therefore open. However, both forms are combined as integral parts of the same exchange, the exchange of labor power with

capital. The movement therefore has a place only as part of the total movement of capital.

The sphere of capitalists' individual consumption is also unique, occupying a position which is altogether different both from this latter sphere and from that of the exchange of capital with capital. This sphere consists of the exchange of commodity capital produced in one circuit with the revenue obtained in another circuit. Since this revenue is appropriated by capital on the basis of the production activity of capital and the commodity exchanged is capital, it is legitimately to be considered as an exchange which is fully located within the circuits of capital. However, it is not an exchange which entails a continuing movement into productive capital for the purpose of creating more capital. Instead, the commodities which enter into this exchange fall out of the circuit to disappear entirely in consumption. This consumption is no less social for being individual. In other words, it is determined within the conditions of existence of the individual owner of capital, which are social conditions. It entails a corresponding quality of usefulness, or of specific use value, in the commodities consumed. The point is, however, that the specific and unique objective which drives this movement is not the expansion of capital as exchange value, which characterizes the circuit itself, but its opposite, the individual consumption of use value. In this respect, it is a movement directed to no other end but consumption, pure and simple. It therefore fits and epitomizes the movement of simple commodity exchange. We thus find here, within the movement of capital itself, a movement which was posited at the start of our investigation as seemingly separate from capital, even opposed to capital. That movement can now be seen to have a place within the capital relation.

The object of the movement of capital is the production of exchange values for the endless increase of capital. But it now appears to be also a movement which contains simultaneously the motive of acquisition of *use value*. This is most clearly so as regards capitalists' individual consumption. It is no less so, though in a qualitatively different sense, in the case of the cycle of reproduction of labor power. This latter is also intrinsically a circuit of simple commodity exchange involving, in particular, sale of the commodity labor power in return for wage payments in money to be spent to acquire the commodities which the worker consumes. The difference is that this cycle results in the reproduction of a commodity which capital itself consumes in production, which therefore is necessary to the productive consumption of capital and hence to its expansion. It is so, moreover, and again in a qualitatively different sense, in the case of consumption of means of production and labor power. The difference is that this case is directly the productive consumption of use values by capital for the unique purpose of the expansion of capital. The decomposition of use value into these three elements is evidently what underlies Marx's three-department scheme which distinguishes between departments producing means of production, means of consumption, and luxuries.

In the formula (3) (see also Figures 1 and 2), these processes correspond to that phase of the circuit described by

$$\dots C_1' \rightarrow M_1' \dots$$

Examined in detail, this phase can be seen to divide into three subprocesses. First, some of the commodities  $C_1'$ , distinguished by their specific useful character for the process of capitalists' productive consumption, are exchanged with money capital to re-enter the circuit as component parts of productive capital. Second, some of the commodities  $C_1'$  are exchanged with revenue for the purpose of capitalists' individual consumption. These must also, as use values, have a specific useful character, a character which in this case is appropriate to the social process of capitalists' individual consumption. Third, some of the commodities  $C_1'$  are exchanged with wages. To the extent that wages are paid out of money capital, or out of revenue, or out of both, this may be considered formally to be an exchange with money capital or with revenue or with both. In qualitative terms, the substantive character of the exchange is that it is an exchange geared to the consumption requirements of the owner of labor power and hence to the reproduction process of labor power. The commodities which enter into that exchange must consequently have a specific useful character suited to that process and to the specific socially determined needs of the owner of labor power. It is therefore an exchange which is rooted in the social process of formation of those needs. It cannot, then, be collapsed into a mere provision of the means of productive consumption for capital, hence into a provision of "variable capital," without eliminating the specific factors of that social mediation and, correspondingly, the social existence of the owner of labor power.<sup>36</sup>

It is evident that use value is an intrinsic element of all these processes, an element which is specific to each such process. That element cannot therefore be arbitrarily posited. It has to be given a determination specific to the particular processes within which it is located and, hence, within the social process of capital itself. The foundation of both use value and exchange value must, then, be seen to lie in the social process of capital, as dual elements of that process. They are "the two factors of a commodity," as Marx proposed, and, therefore, of capital. It is proposed, moreover, that these two factors are combined in a contradictory unity which constitutes an essential condition of existence of the system of economic relations. This contradictory principle can now be seen, at this level of the analysis, to have a definite place as a general feature of the whole process.

The fundamental contradictory principle of the system of capitals arises from the fact that, on the one hand, the sole motivating object of the production of commodities on the part of each and every individual capital, *qua* individual capital, is the creation of exchange values for the purpose of that capital's

expansion. On the other hand, and at the same time, it is a necessary requirement of those commodities that they have a specific useful character adapted to specific needs which are determined within a social process that is not itself directly created by the individual capital. There exists in this sense, it might be said, a contradiction between exchange value and use value. It is also, and this is evidently an equivalent expression of the same thing, a contradiction between the private or individual character of production, that is, the fact that it is based on the self-organizing and self-motivated activity of the individual capitals, and the social character of the same production immanent in the conditions of a necessary interdependence among the capitals and of a necessary structure of socially determined uses which the production must fulfill. It is, equivalently, a contradiction between use value and exchange value, and between social production and individual production. Moreover, the exchange of labor power with capital, as the exchange of a commodity specific to capital, having both an exchange value and a use value, is mediated by the same general contradiction.<sup>37</sup>

It is a contradiction, derived at this abstract and general level, which must in turn have necessary implications for the process of reproduction of the system of capitals. The exact nature of these implications therefore remains to be given an explicit elaboration in the analysis of that reproduction process, specifically in terms of the particular laws of motion which the contradiction entails. In this respect, the analysis must demonstrate not only what those laws are but also how exactly they derive from that inner contradiction. That problem is not considered here. Meanwhile, it is evident that recognition of the organic position of both use value and exchange value within the system of relations is a necessary prerequisite of that analysis.

Production in this general form, comprising all of the detailed elements presented here which are seen to be united in contradiction, is *capitalist commodity production*. Production, as a category, is thus used here in two quite different senses.<sup>38</sup> These may be distinguished as production in the broad sense and production in the narrow sense. Production in the broad sense comprehends the totality of the movement.<sup>39</sup> In that movement, production in the narrow sense has a place which is given to it as a relation with exchange. These components, as we have seen, are mutually dependent moments of the same total process. It is a case of using the same word to mean two quite different things. These meanings are often confused and that confusion is the source of much misunderstanding of the capital relation. In whatever sense it is used, however, it has to be made consistent with the systematic conception of the whole process and of the place of each element in that process.

Correspondingly, production in this general form is exchange, again understood in a broad sense. It is *capitalist commodity exchange*. Here, too, there are two different meanings of exchange which need to be distinguished.<sup>40</sup> There is, first, exchange considered as a particular phase of the total process,

which exists in unity with production as the other phase. Second, there is exchange as the particular social form of the process of capital, a process which in its totality is permeated and spontaneously organized by exchange, so that production itself, in the narrow sense, comes to bear the necessary imprint of exchange.

Capital as a whole is also capable of undergoing reproduction for specific reasons not seen before in any of the previous forms of commodity exchange. In particular, this is because it is only in this system that production itself, in the narrow sense, is fully developed as an internal condition of the system. This system as a whole is abstractly conceived to be self-contained with respect to the capacity to produce (except for the conditions of production of labor power).<sup>41</sup> It is therefore capable of producing its own conditions of production, hence the conditions for continuing and renewing production. Thus it is capable of self-renewal and, hence, of reproduction. This capacity exists, at least as a potential, at the level of the system as a whole. Moreover, this system is capable of producing the conditions for value expansion as well, in the specific form of the surplus value generated in production. Therefore, both reproduction and value expansion are consistent with this system and with each other. In general, *expanded reproduction* is a potential which is latent within this system. It is, nevertheless, a potential which necessarily has a contradictory existence. This is because of the specific contradictory principle which we have seen to be emergent from the logic of the system. Consequently, the problematic of reproduction, which was presented in the discussion of previous forms, can now be fully posed for the first time and acquires a specific meaning in this context. In particular, this problematic comprises a fundamentally significant set of analytical questions, namely: What are the specific mechanisms and interactions involved in the internal workings of the system so as to ensure reproduction as a result? How might interruptions occur in the process, and why? What are, then, the internal obstacles and barriers to the continuation of the process? How does the system overcome those barriers and what internal changes does it then undergo? It is evident here that the concept of reproduction does not preclude or foreclose the possibility of change and transformation. It rather focusses sharply on the question of precisely why and how such change may be conceived to occur. This problematic acquires its full meaning, and a specific meaning, in the context of capitalist commodity production. It also has deep complexities in the context of this system. To penetrate these complexities is the object of the further detailed analysis of this system.

### Conclusion

The sequence of forms of circulation, going from "simple commodity exchange," through "merchant capital," to "industrial capital," is interpreted



here as representing a logical process of reasoning out the self-consistency and determinate structure of the system of capitalist economic relations. The three forms are not to be regarded as mutually exclusive forms having an independent existence as such. Neither are they to be regarded necessarily as an historically observable sequence of concrete social forms, or historical stages of social development. Rather, they are to be interpreted as so many steps in a logical process of constructing the abstract and general conditions of the system of capitalist commodity production. The notion of a method of abstract logical reasoning as representing simultaneously a process of historical development is a way of collapsing the abstract method into a kind of historicism. By so doing it avoids the necessity of seeking to understand the process of historical development on its own terms through the powerful lens provided by a systematic theory.

Of course, complex and difficult problems of analyzing the detailed structure and motion of the system of capitals still remain. They are not themselves solved by the analysis presented here, but the articulation of these foundations provides the necessary basis for going on to consider them.

#### Notes

1. Karl Marx *Grundrisse*, Harmondsworth: Penguin Books, 1973, p. 248.
2. Ronald L. Meek states the argument most vigorously in his three works: *Economics and Ideology and Other Essays*, London: Chapman Hall, 1967; *Studies in the Labor Theory of Value*, 2nd edition, London: Lawrence and Wishart, 1973; and "Is There an 'Historical Transformation Problem?' A Comment," *Economic Journal* 86 (June, 1976), 342-347. See also parallel arguments in Rudolf Hilferding, *Bohm-Bawerk's Criticism of Marx* (Paul M. Sweezy, editor), New York: Augustus M. Kelley, 1949; Rudolph Schlesinger, *Marx, His Time and Ours*, London: Routledge and Kegan Paul, 1950; J. Winternitz, "Values and Prices: A Solution of the So-Called Transformation Problem," *Economic Journal*, 58 (June, 1948), 276-280; and Ben Fine, "On Marx's Theory of Agricultural Rent," *Economy and Society*, 8 (August, 1979).
3. See his "The Science of the Economy," *Economy and Society* 7 (August, 1978) and "The Theory of Value and the Value of Theory - a Reply to Cutler et al.," *Economy and Society* 8 (August, 1979).
4. See his *Political Economy*, Volume 1, New York: MacMillan, 1963, p. 19.
5. See their "Is There an 'Historical Transformation Problem?'" *Economic Journal* 85 (June, 1975), 309-328 and "The 'Historical Transformation Problem': A Reply," *Economic Journal* 86 (June, 1976), 348-352.
6. Louis Althusser and Etienne Balibar, *Reading Capital*, London: New Left Books, 1970; Charles Bettelheim, "Theoretical Comments" in Arghirri Emmanuel, *Unequal Exchange*, New York: Monthly Review Press, 1972; Maurice Dobb, "A Note on the Transformation Problem" in his *On Economic Theory and Socialism*, London: Routledge and Kegan Paul, 1955; Roman Rosdolsky, *The Making of*

- Marx's Capital*, London: Pluto Press, 1977; and I.I. Rubin, *Essays on Marx's Theory of Value*, Detroit: Black and Red, 1972.
7. See their *Marx's Capital and Capitalism Today*, Volumes 1 and 2, London: Routledge and Kegan Paul, 1977 and 1978; and "An Imaginary Orthodoxy - A Reply to Laurence Harris," *Economics and Society* 8 (August, 1979).
  8. See his *Theory of Capitalist Development*, New York: Monthly Review Press, 1956, p. 23; and his "A Critique" in *The Transition From Feudalism to Capitalism*, New York: Science and Society, 1967, p. 15.
  9. In their investigation, Cutler et al., *op cit.*, [1977] argue, on different grounds from those considered here, for an opposition between simple commodity production and capitalist production. They conclude from this, however, that Marx's value analysis of capitalist production must be rejected, because it "requires that the conceptions pertinent to one set of social relations be extended to the other" [p. 31]. In so doing, they fail to consider how that opposition may be consistently integrated into the conception of capital itself. They also fail to discover any problems in the logic of the conception of simple commodity production as such. Joan Robinson in her essays, "Value Before Capitalism," *Kyklos* 28:1 (1975), 143-148, and "The Labor Theory of Value," *Monthly Review Press* 29 (December, 1977), 50-59, arrives, by a different route, at the same conclusion as Cutler et al., but she finds in addition that there are inconsistencies in the conception of simple commodity production.
  10. There is no presumption here, implied or intended, of an arbitrary apriority in the concepts themselves, such as Bohm-Bawerk (in his *Karl Marx and the Close of His System* (Paul Sweezy, editor) New York: Augustus M. Kelley, 1949, pp. 88-89) falsely attributed to Marx's reasoning, or of any direct and immediate correspondence with empirical "reality." Rather, as Marx showed, for instance in the well-known "Introduction" to the *Grundrisse*, there is a complex alternating movement between abstract concepts and their concrete historical counterpart.
  11. Marx's view in *Grundrisse* (pp. 267-268) is that, in the simple commodity exchange system, "exchange takes place only for the reciprocal use of the commodity." "But here," he adds, "the use value, i.e., the content, the natural particularity of the commodity has as such no standing as an economic form. Its form, rather, is exchange value. The content apart from this form is irrelevant; is not a content of the relation as social relation." He goes on immediately to ask: "But does this content as such not develop into a system of needs and production? Does not use value as such enter into the form itself, as a determinant of the form itself. . . ?" His answer is that "of course use does not come to a halt because it is determined *only* by exchange; although of course it obtains its direction thereby. In any case, this is to be examined with exactitude in the examination of value, and not, as Ricardo does, to be entirely abstracted from, nor like the dull Say, who puffs himself up with the mere presupposition of the word 'utility.' Above all it will and must become clear in the development of the individual sections to what extent use value exists not only as presupposed matter, outside economics and its forms, but to what extent it enters into it." Needless to say, this project is left incomplete and, after Marx, the concept of use value comes to occupy an ambiguous and often neglected status in the discourse of marxist analysis. A significant effort to restore it to its proper place is made in the recent work of Rosdolsky (cited above).

12. For Marx's argument on this see, for instance, *Grundrisse*, pp. 270-271.
13. Cf. Marx, *Grundrisse*, p. 248: "already the simple forms of exchange value and of money latently contain the opposition between labour and capital."
14. See, for instance, Meek, *op cit.*, (1967), p. 100; Lange, *op cit.*, (1963), p. 19; Dobb, *op cit.*, (1973), p. 147n; and Sweezy, *op cit.*, (1956), p. 23.
15. Thus, Marx points out (*Grundrisse*, p. 296) that: "For example, in guild and craft labour, where capital itself still has a limited form, and is still entirely immersed in a particular substance, hence is not yet *capital as such*, labour, too, appears as still immersed in its particular specificity: not in the totality and abstraction of labour *as such*, in which it confronts capital." He adds (p. 297) that, with respect to "craftsmen and guild-members, etc.," their "economic character lies precisely in the *specificity* of their labour and in their relation to a *specific master*." Marx's argument here and in the rest of this paragraph makes it clear that the character of the labor is dependent on the character of the capital which it confronts. On the other hand, Dobb, *op cit.*, (1973), p. 147n, presumes that, in simple commodity production, "while there will be mobility of labour together with its means of production between different industries, there will be no separate 'mobility of capital' in the modern sense."
16. The reduction of each and every bundle of commodities to the common measuring rod of money provides, of course, a basis for comparing and establishing the equivalence of any two such bundles. Specifically, it establishes their equivalence as *exchange values*. It presupposes also that each and every commodity, as member of the set of all commodities, has an objective relation to the monetary standard and, hence, to all other commodities, in terms of their money price. But, for Marx, their equality as *values* presupposes something more. Specifically, it presupposes a substantive condition or quality intrinsic in the commodities themselves. This condition constitutes their character as values.
17. There is a certain ambiguity in Marx's derivation of abstract labor as the value substance distinct from exchange value and use value. At various points in the mature texts it appears that value (abstract labor) is deduced from commodity exchange as such, as a general condition, and correspondingly from the existence of money as the universal equivalent standard. But, at other points, abstract labor is derived uniquely from the existence of the capital relation as a historically specific set of social conditions. This ambiguity has been pointed out by many commentators with copious references to the texts, as early as in 1928 by Rubin (ch. 14) and most recently in Claudio Napoleoni, *Smith, Ricardo, Marx*, New York: John Wiley, 1975, ch. 5. It has also given rise, unfortunately, to certain degenerate lines of reasoning which seek, for instance, to connect labor as the value substance with a natural or physiological property of "human working activity" or with a purely "material" attribute of production viewed as a supra-historical category or primordial human condition. See, for instance, Karl Kautsky, *The Economic Doctrines of Karl Marx*, London: A. and C. Black, 1925; and Lange, *op cit.*, (1963). The view taken here is that the only plausible and consistent derivation is that which connects value uniquely with the capital relation, since it is only with capital that exchange becomes fully established as the social form of the process of production and reproduction (cf. Marx, *Capital*, Volume II, New York: Interna-

- tional Publishers, 1967, p. 34). This interpretation is consistent with that of commentators such as Lucio Colletti, *From Rousseau to Lenin*, London: New Left Books, 1972, and the above cited works of Napoleoni, Rosdolsky, and Rubin. But, beyond this, it is further presumed here that it is only labor working with capital, or free wage labor, which is fully social in character and hence becomes intrinsically "social labor." This category of social labor is therefore wholly inapplicable to any and all forms of pre-capitalist society. Marx, on the other hand, supposes that "from the moment that men in any way work for one another their labour assumes a *social form*" (*Capital*, Volume I, New York: International Publishers, 1967, p. 71).
18. There is no specification implied here as to the particular bundle of commodities involved in exchange. It is, rather, a condition strictly related to the magnitude of value on both sides of the exchange, and this is consistent with many different possible combinations of particular commodities. This means, in particular, that there is no necessary presumption that each producer must obtain from the exchange a specific set of particular use values in a specific combination. That specification would await a further determination of the social conditions of existence of the producers. In the absence of that determination, any such specification would reduce the requirement of quantitative equality in the exchange to a matter of an a-social, a-historical, and purely physiological need for "survival." On this, see the similar argument of Rubin, *op cit.*, (1972), pp. 103-104.
19. It may also be asked: What would happen if the condition of equality were *not* satisfied? This is another aspect of the problematic of reproduction, which calls for further analysis of the specific manner in which reproduction takes place, of the mechanisms and interactions involved in the internal workings of the system such as to ensure reproduction, and of the causes and consequences of interruptions in the reproduction process.
20. Cf. Rubin *op cit.*, (1972), pp. 101-103.
21. Marx, *Capital* Volume III, New York: International Publishers, 1967, pp. 177-178.
22. Hilferding, *op cit.*, p. 164.
23. In their investigation, Morishima and Catephores infer that "simple commodity production has never been realized in history in its full or pure form or even in some tolerably approximate form, because of the lack of mobility of producers among jobs in the pre-capitalist age." (*op cit.*, (1975), pp. 314-315). In contrast, the argument presented here is based on consideration of the requirements for internal consistency of the conception of simple commodity exchange itself, quite apart from any question of its correctness as an historical description.
24. Marx, of course, repeatedly rejects the attempt of Smith (and, later, Torrens), which Ricardo also opposed, to confine the operation of the law of value to a "prehistoric period" or "golden age" of pre-capitalist society. See, for instance *Grundrisse*, p. 156, and *Theories of Surplus Value*, Part III, Moscow: Progress Publishers, 1971, p. 74. But this rejection did not inhibit Marx himself from, at times, giving a historical place to simple commodity production in pre-capitalist society. The ambiguity in Marx's texts with regard to this idea is, in large part, responsible for the continuing debate concerning its validity.
25. Marx, *Capital* Volume I, *op cit.*, pp. 152-153.
26. Marx notes (*Grundrisse*, pp. 650-651): "Free competition is the real development

of capital. By its means what corresponds to the nature of capital is posited as an external necessity for the individual capital; what corresponds to the concept of capital, is posited as external necessity for the mode of production founded on capital."

27. Marx, *Capital* Volume II, *op. cit.*, p. 245.
28. Marx, *Capital* Volume I, *op. cit.*, p. 155.
29. Marx, *Capital* Volume III, *op. cit.*, pp. 328-334.
30. Cf. Marx, *Capital*, Volume III, *op. cit.*, pp. 329-331. See also John Hicks, *A Theory of Economic History*, Oxford: Clarendon Press, pp. 44-45 and Morishima and Catephores, *op. cit.*, (1975), p. 321.
31. The problem of crises presents itself here as a possibility of the occurrence of an interruption in the circuit. But it is at this level only a possibility which is latent in the general conditions of the movement of capital and requires further detailed analysis of the process of that movement. On this see Marx, *Theories of Surplus Value*, Part II, Moscow: Progress Publishers, 1968, Ch. 17. An analysis of some of the proximate factors which may be involved in the crisis is developed in Donald Harris, *Capital Accumulation and Income Distribution*, Stanford: Stanford University Press, 1978, ch. 10.
32. Cf. Marx, *Grundrisse*, p. 296: "as the use value which confronts money posited as capital, labour is not this or another labour, but *labour pure and simple*, abstract labour; absolutely indifferent to its particular specificity [Bestimmtheit], but capable of all specificities."
33. For Marx, this condition represents "the specific development which the law of value undergoes with the formation of capital:" *Theories of Surplus Value*, Part I, Moscow: Progress Publishers, 1963, p. 88.
34. There is an important analytical question here as to what is the precise connection between the profit and the surplus value, consistent with the understanding of the profit as emerging from the interaction of the many capitals through market exchanges and, hence, through the money prices formed in that interaction. Associated with this is a question concerning the specific conditions of appropriation of the surplus value in different revenue forms consisting of profit, interest, rent, etc. This question is often referred to as the "transformation problem" and it is the subject of considerable debate in the recent literature. No attempt is made here to intervene directly in that debate. But it should be evident from the consideration presented here that this problem arises at a distinct level of the analysis, namely at the level of the analysis of the many particular capitals in interaction with each other. Furthermore, its solution has to be made consistent with the conception of the circuit of capital in general as a unity of production and circulation. There is a tendency within the existing discourse on this problem to locate the conditions of determination of the rate of profit entirely within "the sphere of production" narrowly conceived. This has the consequence of mistakenly collapsing the conception of the circuit of capital into its particular form as the circuit of productive capital.
35. These concrete contexts include, for instance, household work, education, the "social wage" paid by the state, migrant labor, and "labor reserves" in Africa. For a relevant discussion of the general problem, see Herbert Gintis, "The Nature of Labor Exchange and the Theory of Capitalist Production," *Review of Radical Political Economics* 8 (Summer, 1976), pp. 36-54.

36. Existing discussions of the "transformation problem" tend to have this consequence because of the assumed condition in the proposed solutions that the wage corresponds uniquely to a bundle of specified commodities which conform to the "subsistence" requirements of the worker. The limitations of this treatment are discussed in D. Harris, *op. cit.*, (1978).
37. Cf. Marx, *Grundrisse*, pp. 267-268: "in the relation of capital and labour, exchange value and use value are brought into relation; the one side (capital) initially stands opposite the other side as *exchange value*, and the other (labour), stands opposite capital, as *use value*."
38. In the "Introduction" to the *Grundrisse*, Marx clearly distinguishes between the many different senses of the term "production," making it clear that "this general category . . . is itself segmented many times over and splits into different determinations" (p. 85).
39. This is presumably the sense Marx intends when he asserts (*Grundrisse*, p. 46): "Production predominates not only over itself, in the antithetical definition of production, but over the other moments as well." For, a few sentences later he adds: "Admittedly, however in its *one-sided form*, production is itself determined by the other moments." In the translation of this passage by S.W. Ryazanskaya, this latter meaning of production is rendered as "production in the narrow sense" (Marx *A Contribution to the Critique of Political Economy*, London: Lawrence and Wishart, 1971, p. 205).
40. Rubin, *op. cit.*, (1972, pp. 149-150, makes a similar distinction between "two concepts of exchange."
41. Viewed historically, the sphere of exchange in which capital circulates includes also forms of non-capitalist production. From the standpoint of the system of capitals, exchange with such non-capitalist forms is a way in which capital acquires particular commodities which are requisite to its circuit but not (yet?) produced within any of the component circuits. On this see, for instance, Marx *Capital*, Volume II, *op. cit.*, pp. 110-111. As such, this is an exchange that is specific to the concrete historical conditions in which capital moves, both at the point of its emergence as capital and throughout its subsequent development. It is therefore an aspect of the concrete historical analysis of the capitalist economy. The full significance of such exchanges is that the circuits of capital cannot then be treated historically as a completely closed system. There remains nevertheless a substantive theoretical question as to how the exchange with non-capitalist forms is related to the internal logic of the system of capitals as such. What place does it occupy in the reproduction process of that system? This question has remained a problematical one in the conception of the reproduction process of capital. This question was a central concern of Rosa Luxemburg, *The Accumulation of Capital*, London: Routledge and Kegan Paul, 1951, and continues to be the main focus of one line of analysis of the problem of imperialism. It has been re-examined recently by Barbara Bradby, "The Destruction of Natural Economy," *Economy and Society* 4 (May, 1975), 127-161, and by P. Patnaik, "A Note on External Markets and Capitalist Development," *Economic Journal* 82 (December, 1972), 1316-1323.

# The Theoretical Status of Monopoly Capital

Michael A. Lebowitz

## I

In 1966, Paul Baran and Paul Sweezy published *Monopoly Capital*, a book which was extremely influential in introducing a Marxian perspective to a new generation of critics of aspects of capitalism. More than simply an attempt to popularize Marx, however, *Monopoly Capital* also boldly advanced the argument that Marxian social science had *stagnated*, stagnated because of its reliance on the assumption of a competitive economy: "the Marxian analysis of capitalism still rests in the final analysis on the assumption of a competitive economy."<sup>1</sup>

Modern capitalism, however, was characterized by monopoly; the typical economic unit, they noted, "has the attributes which were once thought to be possessed only by monopolies."<sup>2</sup> And, recognition of this and its significance had to be at the core of analysis. The emergence of monopoly capital anticipated but not investigated by Marx, had to be seen not as "effecting essentially quantitative modifications of the basic Marxian laws of capitalism,"—but as a "qualitatively new element in the capitalist economy."<sup>3</sup> Thus, monopoly power, rising surpluses, expansion of unproductive expenditures and stagnation as the normal state of the economy—elements introduced earlier in Sweezy's *Theory of Capitalist Development*—constituted the qualitatively new character of modern capitalism.<sup>4</sup>

For some Marxists, however, all this has little to do with Marxism. The very concept of a monopoly stage of capitalism, it has been argued, is "incompatible" with Marx's theory. For, rather than the reduction of competition, Marx believed that capitalism would "tend to be *less* monopolistic" and competition more intense.<sup>5</sup> Rather than Marxism, according to these critics, the Baran-Sweezy theory of monopoly capital is idealist, bourgeois and leads logically to reformism.<sup>6</sup> There is, it appears, what one critic has described as an "ambiguous and unclarified relationship of American neo-Marxism to classical Marxism."<sup>7</sup>

But, then, what is classical Marxism in this area? In Marx's *Capital*, there are two apparent themes which point in opposite directions.<sup>8</sup> In Volume I, there

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I am particularly grateful for the comments of Paresh Chattopadhyay, John Bellamy Foster and George Warskett on an earlier version of the essay.



is the account of growing monopolization, the "expropriation of many capitalists by a few," the growing force of attraction and centralization—and the explicit statement relating the intensity of competition to the number of capitals in a particular sphere: "competition rages in direct proportion to the number, and in inverse proportion to the magnitude, of the rival capitals."<sup>9</sup> In Volume III, on the other hand, equalization of the profit rate and capital mobility are shown to depend upon the degree of development of capitalism. The less capital is "adulterated and amalgamated with survivals of former economic conditions" and the more the credit system develops, the greater the extent to which capital succeeds in equalizing profit rates among the various spheres of production.<sup>10</sup> For those who emphasize this latter theme, then, monopoly power, barriers to entry, differential profit rates are, at best, transitory phenomena; the very development of capitalism breaks down monopolies and intensifies the competition among capitals through the mechanism of capital mobility.

The basis of the division over the status of the concept of monopoly capital, thus, appears to be present in Marx himself; and, the possibility that Marx was simply inconsistent must be acknowledged—an admission that would provide the degree of freedom allowing all to choose among competing quotations according to taste. Yet, the proper situation of the concept of monopoly capital cannot rely simply upon the consideration of extrinsic quotations. Rather, it is necessary to attempt to reconstruct Marx's inner argument and to establish which, if any, of Marx's statements flow logically and necessarily from his theory.

## II. Essence and Appearance in Marx's Method

To understand the place of monopoly capital in Marx's framework, we must first be clear as to the relation which Marx posed between the concept of capital and capital as it really exists. Before one could understand the behavior and the movements of capital on the surface, it was necessary to grasp the inner nature, the essential character, of capital—that which distinguished it; the understanding of "capital in general," the concept of capital, "an abstraction which grasps the specific characteristics which distinguish capital from all other forms of wealth—or modes in which (social) production develops"—this conscious abstraction from surface phenomena was required in order to comprehend the inner laws, immanent tendencies and intrinsic connections of capital.<sup>11</sup>

Only then could one proceed to consider capital as it *really* exists—as individual capitals, as many capitals, as capitals in competition. Only then could one understand the apparent movements on the surface:

a scientific analysis of competition is possible only if we can grasp the inner nature of capital, just as the apparent motions of the heavenly bodies are intelligible only to someone who is acquainted with their real motions, which are not perceptible to the senses.<sup>12</sup>

Thus, with an understanding of the concept of capital, of capital as self-expanding value, value-for-itself, standing opposite wage-labor, the necessary impulse of capital to develop productive forces in order to secure relative surplus value is readily grasped. On the surface, in competition, however, that process did not occur with the conscious goal of the reduction of necessary labor. Rather, individual capitals acted in order to reduce their individual cost-prices, in order to "pocket the difference between their costs of production and the market-prices of the same commodities produced at higher costs of production"; they develop productivity in order to increase their individual profits.<sup>13</sup> In place of the essential opposition of capital and wage-labor, on the surface there is substituted the opposition of capitals.

Through their individual actions, then, many capitals in competition *execute* the inner laws of capital; it is the "way in which the immanent laws of capitalist production manifest themselves in the external movement of the individual capitals, assert themselves as the coercive laws of competition."<sup>14</sup> Competition, Marx noted, "is nothing more than the way in which many capitals force the inherent determinants of capital upon one another and upon themselves." It does not "*explain* these laws; rather, it lets them be *seen*, but does not produce them."<sup>15</sup>

Thus, the action of capital upon capital, the real process of capital, invents no new laws or tendencies; it merely realizes those inherent in the very nature of capital. To try to explain those laws by reference to surface phenomena, however, is to follow the course of vulgar political economy; "to try to explain them simply as the results of competition therefore means to concede that one does not understand them."<sup>16</sup> Indeed, remaining at the level of appearance, one can never establish *necessity*; it is only the inner insofar as it is manifested as outer, essence insofar as it appears, that has the character of necessity:

Wherever it is competition as such which determines anything, the determination is accidental, purely empirical, and only pedantry or fantasy would seek to represent this accident as a necessity.<sup>17</sup>

It was not, of course, merely the understanding of the essential in the apparent movements of capital which concerned Marx. Also critical was the necessity to "grasp the inner connection in contrast to the multiplicity of outward forms," to locate and describe the concrete forms, to demonstrate the inner connections within the forms of capital assumed "on the surface of society."<sup>18</sup> That was, in part, the project of Volume III of *Capital*—to

demonstrate why essence, the inner nature of capital, necessarily appeared as it did.

Thus, we see here in Volume III the consideration of the rate of profit (which has the rate of surplus-value as its "invisible and unknown essence") and prices of production ("an utterly external and *prima facie* meaningless form of the value of commodities, a form as it appears in competition").<sup>19</sup> Similarly, various forms of capital and sources of revenue are shown to necessarily emerge from the movements of capital as a whole; merchant capital and merchant profits, interest-bearing capital and interest, landed property and rent—all these apparently independent forms of wealth are reduced "to their inner unity by means of analysis."<sup>20</sup> As he had earlier remarked about Ricardo, Marx here explains "in this way all phenomena, even those like ground rent, accumulation of capital and the relation of wages to profit, which at first sight seem to contradict it [his formula]; it is precisely that which makes his doctrine a scientific system."<sup>21</sup>

It was the same effort to demonstrate the consistency of the outer forms with the inner nature of capital which underlies Marx's discussion of the transformation of values into prices of production. Discussion of this process, which occurs through the equalization of the rate of profit, is intended to show that logically there is a necessary redistribution of surplus value and value on the surface—but nothing which is inconsistent with the inner relations. Thus, for what classical political economy offered up as its external "law," prices of production, Marx provides an inner explanation.

Yet, certainly consideration of this particular process of transformation could not exhaust the relation of many capitals on the surface to the concept of capital. Logically, the consistency of the actions of many capitals, the action of capital upon capital, requires consideration of *all possible forms* of many capitals. Many capitals logically can include at one extreme an infinite number of capitals (the "perfect competition" case) or, at the other extreme, two capitals within a society. In short, one possible or contingent form of capital is not sufficient to demonstrate the necessary consistency of the outer forms of capital with its inner nature. And, certainly Marx was explicit as to the limits of his discussion of transformation of values through the equalization of profit rates. Equalization of profit rates, he noted, implies mobility of capital, its free movement between various spheres of production; "the premise in this case is that no barrier, or just an accidental and temporary barrier, interferes with the competition of capitals."<sup>22</sup>

Rather than fetishizing the transformation process, Marx proceeded to argue that *where* such barriers existed, where prices received exceeded the price of production (and therefore yielded higher than the average profit rate), where, in short, capital took the form of monopoly, here too this contingency would not violate the inner relations established. Either the existence of a monopoly would produce a redistribution of surplus value ("a local disturbance in the

distribution of surplus value")—as in the other case considered—or, it could produce a reduction in wages below the value of labor power.<sup>23</sup> In either case, Marx considered the presence of monopoly a phenomenon which did not at all contradict his formula.

Thus, competitive capital (if we may so designate the capital considered in the transformation discussion) and monopoly capital were simply two contingent forms of capital, two forms of capital as it exists, two forms by which the inner laws of capital were executed.<sup>24</sup> And, yet, we know that there is more than that to the question of monopoly capital—that of the status of a contingent form of capital; there is also the question of *necessity*, of the necessary emergence of monopoly.

### III. Monopoly: From Contingency to Necessity

The proposition that the competitive form of capital has a tendency to give way to a monopoly form had a long lineage for Marx. It appears in Engel's early "Outlines of a Critique of Political Economy" as the "law of the centralization of private property," where large capitals swallow small capitals; was repeated by Proudhon and then identified as a movement and process (rather than an abstract formula) by Marx in his *Poverty of Philosophy*; and, then, once again appears as the tendency toward concentration of land and capital in a few hands and the victory of large capitals over small capitals in their contest in the *Communist Manifesto* and *Wage-Labor and Capital*.<sup>25</sup> So, it is not surprising to see the proposition reappear in *Capital*.

In *Capital*, the argument is that of the centralization of capital. Noting that he could not here develop the "laws of centralization of capitals, or of the attraction of capital by capital," Marx proceeded to offer a few facts. And these facts were that the battle of competition was fought by the cheapening of commodities, that large capitals beat the smaller capitals and that small capitals were thereby ruined, leaving large-scale industry under the control of a few hands.<sup>26</sup> Centralization of capital then reappears in the discussion of the historical tendency of capitalist accumulation, where we find that "one capitalist always strikes down many others" and there is "a constant decrease in the number of capitalist magnates."<sup>27</sup> All this plays a critical role in the account of the end of capital; the monopoly of capital becomes a fetter on the development of productive forces.

The argument, we note, is basically the same as that of *Wage-Labor and Capital*: centralization emerges out of competition of capitals, attraction out of repulsion; individual capitals reduce their cost-prices and compel other capitals to follow suit or fall by the wayside. And, it is, of course, an *outer* or external account, one which presupposes consideration of individual capitals and of the competition of capitals (which, in fact, requires the discussion of Volume III of

Capital). Yet, consideration of competition itself was premature, was possible "only if we can grasp the inner nature of capital."

We have, in short, a process of centralization of capital—which plays such a critical role in Volume I—presented as the result of an external movement of many capitals; it is presented as an outer movement determined by competition of capitals. *Is it, then, a process which is contingent, purely empirical which only pedantry would represent as necessary?* Is it an outer movement for which there is no inner law, no immanent tendency, which gives it the character of a necessary process?

Well, it is certain that Marx had in mind an inner law for which the process of centralization was "merely" a manifestation. It was a law which he noted could not be "developed here," and thus he limited himself to a few facts, an outer account. Similarly, he identified centralization of capital as the *means* by which "the immanent laws of capitalist production itself" accomplished the expropriation of individual capitals.<sup>28</sup> But, what *was* the inner law for which the process of centralization as described was an outer form?

#### IV. The Inner Tendency of Capital to Become One

The inner tendency, we propose, was simply the tendency of capital to become One, a tendency to develop from the form of many capitals (a fragmentation of capital given in its beginnings) to one adequate to its concept, capital in general. It is a tendency seen to be inherent in the very concept of capital itself—for all capital to be integrated as One capital in one hand and for all others to be in the position of wage-labor in relation to that capital. There are two aspects here: (1) the separation of the conditions of labor from all who labor and (2) the integration of these in one hand.

In short, we are describing as the inner tendency of capital precisely what is present in its historical genesis and inherent in its concept—expropriation/separation. Expropriation is "the point of departure for the capitalist mode of production; *its accomplishment is the goal of this production. In the last instance, it aims at the expropriation of the means of production from all individuals.*"<sup>29</sup> Indeed, every moment in the development of capital is to be understood as the development of this separation, on the one hand, and integration, on the other. In the primitive or original accumulation of capital, that "historical process of separation which transforms the conditions of labor into capital and labor into wage-labor," there is already contained the integration of the conditions of labor.<sup>30</sup> As soon as capitalist production stands on its own feet, however, "it not only maintains this separation, but reproduces it on a constantly extending scale."<sup>31</sup>

Thus, simple reproduction of capital, that heuristic device, "reproduces in the course of its own process the separation between labor-power and the

conditions of labor."<sup>32</sup> And, the accumulation of capital "reproduces the separation and the independent existence of material wealth as against labor on an ever increasing scale."<sup>33</sup> Finally, we have the process described as centralization:

This is only the last degree and the final form of the process which transforms the conditions of labor into capital, then reproduces capital and the separate capitals on a larger scale and finally separates from their owners the various capitals which have come into existence at many points of society and centralizes them into the hands of big capitalists.<sup>34</sup>

It is just a further instance of separating—"raised to the second power"—the conditions of production from the producers, a process that "forms the conception of capital" and which is finally expressed as "centralization of existing capitals in a few hands and a deprivation of many of their capital."<sup>35</sup> Thus, we are describing here simply the progressive development of what is inherent in the concept of capital; discussing pre-capitalist formations in the *Grundrisse*, Marx commented: "the relation of labor to capital, or to the objective conditions of labor as capital, presupposes a process of history which dissolves the various forms in which the worker is a proprietor, or in which the proprietor works."<sup>36</sup> That process is clearly one which continues—i.e., is a product and result of capital itself.

But, what are the *limits*, the theoretical limits, to this process? In a number of cases, the limit is expressed as the centralization in a *few* hands. Post-dating many of these comments, on the other hand, are the changes which Marx introduced in the 1872 French edition (incorporated by Engels into the fourth German edition):

In any given branch of industry centralization would reach its extreme limit if all the individual capitals invested there were fused into a single capital. In a given society this limit would be reached only when the entire social capital was united in the hands of either a single capitalist or a single capitalist company.<sup>37</sup>

How do we choose among the various quotations? Does this process of separation proceed to the point of centralizing capital into a few hands, those of the big capitalists, or does it proceed *further*? And how precisely do Marx's comments on the place and role of the credit system and the emergence of the corporation fit in? Are they manifestations of the inner law or are they merely coincidental, reinforcing contingent developments?

What must be acknowledged is that however often Marx repeated this inner law of which centralization was a manifestation, it is one thing to present a proposition with the characteristic of Hegelian elegance—and quite another

thing to demonstrate its *necessity*. In the absence of such a demonstration of necessity, we need not worry about whether the tendency of capital to become One stops *before* this point—because there *is* no such tendency at all.

#### V. The Three Aspects of Integration

To demonstrate the necessity of the tendency of capital to become One, we must show that the very separation and disintegration of capitals is contrary to the concept of capital, that there is a particular restriction to the growth of capital and the development of productive forces inherent in the separation of capital—and, that accordingly the adequate development of capital requires the cancellation of that separation and fragmentation. In general, it must be shown that the unity of producers with the conditions of production is a barrier to the growth of capital—and, thus, that expropriation is necessary.

We need, however, to be more specific. For capital to become One—i.e., for the entire social capital of a given society to be united in the hands of a single capitalist or a single capitalist company, three separate (though related) processes are required:

1. Horizontal integration—the integration of all capitals in a single sphere,
2. Vertical integration—the integration of capitals in spheres which are organically related in the production of use-values, and
3. Conglomerate integration—the integration of capitals in differing spheres independent of any organic relation. For integration to be complete, all three tendencies must be present. Thus, it is necessary to demonstrate that the existence of separate capitals in *each* case is contrary to the concept of capital within Marx's argument.

##### a. The Case for Horizontal Integration

Consider first the tendency for horizontal integration, the most readily apparent argument which Marx provides. Here the task is to demonstrate that the existence of separate capitals in a given sphere of production is a barrier to capital—and, accordingly, that capital has a tendency to negate that barrier.

Capital in general, self-expanding value, has the tendency to grow; faced with wage-labor, which struggles for its own goals, capital must develop productive forces in order to secure relative surplus value. Yet, the separation of capitals within a particular sphere of production means that each capital thwarts the growth of every other capital:

the part of the social capital domiciled in each particular sphere of production is divided among many capitalists who confront each other as mutually independent and competitive commodity-producers.<sup>38</sup>

A critical part of Marx's argument, though, is that the very development of the specifically capitalist mode of production entails the requirement for "a definite and constantly *growing minimum amount of capital*"; "the conditions of production now demand the application of capital on a mass scale."<sup>39</sup> The separation and independence of capitals in a particular sphere, however, prevents at a certain point the development of capital:

the world would still be without railways if it had to wait until accumulation had got a few individual capitals far enough to be adequate for the construction of a railroad.<sup>40</sup>

The separation of capitals prevents the development of productive forces to the extent that integration of capital would permit; it is contrary to capital's tendency to reduce necessary labor and secure relative surplus value.

And, thus, we have the tendency for attraction of capitals, which "becomes more intense in proportion as the specifically capitalist mode of production develops along with accumulation."<sup>41</sup> The process of integration destroys the "individual independence" of existing capitals, transforms many small capitals into a few large ones; it allows for the development of processes of production "socially combined and carried out on a large scale"; it "intensifies and accelerates the effects of accumulation"; and, "it simultaneously extends and speeds up those revolutions in the technical composition of capital."<sup>42</sup>

This process of horizontal integration of capital, a redistribution of capitals within a particular sphere, is of course the familiar account of centralization. It is executed by the actions of capitals upon capitals, by the competition of capitals whereby "success and failure both lead here to a centralization of capital, and thus to expropriation on the most enormous scale."<sup>43</sup> Since it is so familiar, it is also critical to emphasize that it is *only one form* of the process of integration and that it is inadequate in itself for a tendency for the entire social capital to be united in the hands of a single capitalist. Its limit (understood as a mathematical limit rather than a prediction) is a single capital in a given branch of industry; but, it leaves the possibility of a multitude of separate industries all producing different use-values and separated by commodity exchange.

##### b. The Case for Vertical Integration

The tendency for vertical integration of capital is not nearly as well developed in *Capital*, and its relative de-emphasis must be regarded as an inadequacy of *Capital*. Nevertheless, it is certainly present. Here the task is to demonstrate that the existence of capitals which are organically related in the production of use-values *but separated by commodity exchange* is a barrier to capital.



The matter here revolves around the difference between the purchase of a commodity by one capital from another and the purchase of the commodity labor-power. In the first case, the individual capitalist pays for all the labor he receives; in the second, he only pays for the *necessary* labor:

when the capitalist enters the commodity market as a buyer, . . . he has to pay the full value of a commodity, the whole of labor-time embodied in it, irrespective of the proportions in which the fruits of the labor-time were divided or are divided between the capitalist and the worker. If, on the other hand, he enters the labor market as a buyer, he buys in actual fact more labor than he pays for.<sup>44</sup>

Consider, then, the implications for the introduction of machinery. For capital *in general*, machinery will be introduced as soon as it involves a net saving on labor—as soon as more labor is replaced in a particular process of production than is required to produce the given machine; in short, it is introduced as soon as it allows for the increase in productivity and thus the generation of relative surplus value.

However, this is *not* the point at which the individual capitalist who must purchase machinery as a commodity will introduce the new technique. For the individual capitalist, it is not the difference between the labor contained in the machine and the labor it displaces that matters; rather, it is the difference between the labor in the machine and the portion of the direct labor which that capitalist *pays* for:

the limit to using a machine is therefore fixed by the difference between the value of the machine and the value of the labor-power replaced by it.<sup>45</sup>

It is only this difference which influences the action of the individual capitalist.

For the individual capitalist, it is not the increase in productivity—i.e., the reduction in the value of the commodity—which matters; it is the reduction in his individual cost-price. Thus, “the law of increased productivity of labor is not, therefore, absolutely valid” for the individual capital, for capital as a whole when separated and fragmented by commodity exchange. Capital, here, goes against its historic mission:

Its historic mission is unconstrained development in geometric progression of the productivity of human labor. It goes back on its mission whenever, as here, it checks the development of productivity.<sup>46</sup>

Thus, all other things equal, One capital will introduce machinery sooner and more extensively than individual capitals separated by commodity exchange.

This point is the core of Marx’s comment:

The field of application for machinery would therefore be entirely different in a communist society from what it is in bourgeois society.<sup>47</sup>

But, it is not communist society nor (as Rosdolsky suggests) “state capitalist” society which is at issue here—it is simply the tendency in capital for vertical integration, the tendency to go beyond the barrier presented by the separation of capitals.<sup>48</sup>

Vertical integration of capital makes possible the further development of combined labor processes. It is present at the origin of the capitalist development of manufacture, where that which was previously separated by commodity exchange becomes part of a continuous process of production; and, it grows ever more intense with the development of the specifically capitalist mode of production—where there is “the progressive transformation of isolated processes of production, carried on by customary methods, into socially combined and scientifically arranged processes of production.”<sup>49</sup> Vertical integration of capital substitutes, for the anarchy, the “chance and caprice” of commodity exchange, the *a priori* plan of combined labor processes.<sup>50</sup>

For capitals in competition, this tendency for vertical integration is realized as result of the saving which will accrue to the individual capital which chooses to produce means of production rather than to purchase these as commodities—the savings which emerge by no longer paying for the surplus value of another capital:

If, therefore, he produces his raw materials and machinery himself instead of buying them, he himself appropriates the surplus labor he would otherwise have had to pay out to the seller of the raw materials and machinery.<sup>51</sup>

In the battle of competition, vertical integration (the tendency for means of production to be removed from commodity exchange) is executed by the competition of individual capitals to expand at the expense of competing capitals.

As a tendency, vertical integration of capital was inadequately stressed by Marx—and, as a result, this important aspect of the integration of capital tends to be overlooked; but its basis is clearly present in Marx’s theory. Its limit is the complete removal of means of production from commodity exchange and the establishment of *fully* combined labor processes—from raw materials to final use-values for consumers. Combined with horizontal integration developed to its limit (with which it interacts), it yields one capital in every socially-combined sphere of production producing final use-values; but, it is still not

adequate to the concept of all social capital in the hands of a single capitalist—because it retains the separation of the various spheres.

*c. The Case for Conglomerate Integration*

Finally, in what way is the separation of capital into independent, discrete spheres contrary to the concept of capital? Consider an *absolute* separation where the “various spheres of production are related to one another, within certain limits, as foreign countries or communist countries.”<sup>52</sup> In this case, all surplus value generated and realized within a particular sphere would have to be accumulated in that sphere or consumed. Capital could not expand to its utmost—because it would be denied access to the means for its maximum self-expansion. But, that is contrary to the concept of capital, where “every limit appears as a barrier to be overcome.”<sup>53</sup> In seeking the highest possible rate of profit and in shifting, accordingly, capital from one sphere to another, the individual capitalist acts in accordance with the inner nature of capital:

In acting thus the individual capitalist only obeys the immanent law, and hence the moral imperative, of capital to produce as much surplus-value as possible.<sup>54</sup>

Thus, the equalization of the rate of profit is inherent in the concept of capital as self-expanding value; it occurs through the competition of capitals to expand, where “the action of capitals on one another has the force to assert the inherent laws of capital.”<sup>55</sup> And capital’s tendency is always to transcend any barriers to its growth:

It is the perpetual tendency of capitals to bring about through competition this equalization in the distribution of surplus-value produced by the total capital, and to overcome all obstacles to this equalization.<sup>56</sup>

The process by which this occurs, of course, is the shift of capital from one sphere to another, the free movement of capital. But, this requires that capital exists in its universal form—money-capital. Only here does capital possess “the form which enables it as a common element, irrespective of its particular employment, to be distributed amongst the different spheres, amongst the capitalist class, according to the production needs of each separate sphere.”<sup>57</sup> Only here, in money-capital, in the money-market, do all distinctions as to the quality of capital disappear:

All the different forms assumed by capital according to the different spheres of production or circulation in which it is invested, are obliterated here. It exists here in the undifferentiated, always identical form, that of independent exchange-value, i.e., of money.<sup>58</sup>

Here, in the money market, “capital appears as the general element as opposed to individual capitals”; here, there is a real presence of capital as a whole:

In the money market, capital is posited in its totality; there it *determines prices, gives work, regulates production*, in a word, is the *source of production*.<sup>59</sup>

Capital is always latently One in the form of money-capital, the form by which the equalization of profit rates is accomplished—a process which “implies, furthermore, the development of the credit system, which concentrates the inorganic mass of the disposable social capital vis-a-vis the individual capitalist.”<sup>60</sup>

What, then, is this money-capital which is concentrated in the credit system and which stands opposite individual capitals? Simply, it is the capital which has been realized in the form of money-capital in the course of the circuit of capital but for which the individual capital has no use at the moment—latent money-capital for the individual capital; it is “released capital,” which is put at the disposal of other capitalists.<sup>61</sup> With the development of the credit and banking system, for which this latent money-capital provides one of the foundations, this money-capital is put at the disposal of a mediator, the banker:

the banker, who receives the money as a loan from one group of the reproductive capitalists, lends it to another group of reproductive capitalists, so that the banker appears in the role of a supreme benefactor; and at the same time, the control over this capital falls completely into the hands of the banker in his capacity as middleman.<sup>62</sup>

Thus, money-capital “assumes the nature of a concentrated, organized mass, which, quite different from actual production, is subject to the control of bankers, i.e., the representatives of social capital.” Here, “the bankers confront the industrial capitalists and the commercial capitalists as representatives of all money-lenders. They become the general managers of money-capital.”<sup>63</sup>

Yet, this movement of capital from sphere to sphere in this manner is, by its very nature, a *short-term movement*. The money-capital is capital to which the particular lender, the capitalist for whom it is latent money-capital, is *not*

*indifferent*; it is capital ultimately intended for return to his own particular circuit of capital. The very development of the specifically capitalist mode of production, however, generates a requirement for *long-term* capital, for large masses of capital to be "welded together" on a long-term basis.<sup>64</sup> It is for this very reason that Marx could announce: "the *ultimate positing* of capital in the form adequate to it—is joint-stock capital." Or, as he informed Engels—"Share capital as the most perfect form" of capital.<sup>65</sup>

Thus, the development of the corporation is immanent in the concept of capital. And, as is well-known, here we see the further separation between labor and the conditions of labor, the further dissolution of "the various forms in which the worker is a proprietor, or in which the proprietor works." In the corporation, the function of capital "is entirely divorced from capital ownership, hence also labor is entirely divorced from ownership of means of production and surplus-labor."<sup>66</sup> The ownership of capital is separated here from those who are not indifferent to its particular employment, the functioning capitalists,—those who combine both the ownership of capital and the function of capital within one person. Capital here "is employed by people who do not own it and who consequently tackle things quite differently than the owner, who anxiously weighs the limitations of his private capital insofar as he handles it himself."<sup>67</sup> We have "the mere manager who has no title whatsoever to the capital," who performs "all the real functions pertaining to the functioning capitalist," on the one hand, and the owner of capital, who disappears from the production process, a "mere money-owner capitalist" on the other hand. Capital here in its "most perfect form" is:

directly endowed with the form of social capital (capital of directly associated individuals) as distinct from private capital . . . It is the abolition of capital as private property within the framework of capitalist production itself.<sup>68</sup>

With the development of corporations in different spheres of production, money-capital (that undifferentiated, homogeneous form of capital) can now be distributed in large masses among the different spheres according to the requirements of those various spheres; it can now be made available to those who actually put it to work, those who perform the function of capital. Is, then, "many corporations," many separate and distinct congelations of money-capital, adequate to the concept of capital? One would have to answer—no. Separate ownership in the various spheres could still inhibit the free entry capital (through the determination of the particular requirements for money-capital); separate and distinct ownership here is consistent with a barrier to the equalization of profit rates which is immanent in the concept of capital.

The adequate form of capital, then, is One corporation (or, many corporations which are identical)—a unitary authority which can shift capital from

sphere to sphere in such a way as to maximize the self-expansion of capital. In conglomerate integration, the tendency for the integration of capitals in different spheres independent of any organic relation, we have the third aspect of the tendency of capital to become One. And, as in the other aspects, its real emergence to its limit is latent within the nature of capital. Just as vertical integration is latent in the addition of constant capital to new living labor in the formation of value, and just as horizontal integration is latent in the formation of market-value, so also is conglomerate integration latent in the equalization of the profit rate, where every capitalist is to be regarded "actually as a shareholder in the total social enterprise." In the equalization of the profit rate, the formation of the general rate of profit:

the various capitalists are just so many stockholders in a stock company . . . so that profits differ in the case of the individual capitalists only in accordance with the amount invested by each in the aggregate enterprise, i.e., according to his investment in social production as a whole, according to the number of his shares.<sup>69</sup>

And, how does the process of conglomerate integration occur within competition? The formation of corporations, of course, occurs due to the requirement of individual capitals to amass the funds required to expand; and, the movement into different spheres occurs as capitals competing to expand *diversify* in order to maximize their individual rate of self-expansion. Diversification, thus, is the manifestation of conglomerate integration—another manifestation of the tendency of capital to become One.

The combination of the three aspects of integration (horizontal, vertical and conglomerate) thus has as its limit the case "when the entire social capital [is] united in the hands of either a single capitalist or a single capitalist company."

## VI. The "Perfecting" of Capital

How do we stand, now, in relation to the concept of monopoly capital? It must be recognized that one-sidedness in stressing one or another aspect of the tendency of capital to become One has marked the controversies over the theoretical status of monopoly capital. The inconsistency between Marx's own statements is only an apparent inconsistency; their inner unity is revealed in the notion of the tendency of capital to become One.

And, this tendency is the very process of development of capital itself. Beginning on the basis of the fragmentation of capitals, capital develops by transforming its historical presuppositions into a form increasingly adequate to its inner nature. Always One in essence, capital increasingly becomes so in phenomenal form by acting upon itself—through the process of competition of

individual capitals. Thus, capital is increasingly "posited, not only *in itself*, in its substance, but is posited also in its *form*."<sup>70</sup> It is potentiality, that which is always inherent in the concept of capital, increasingly realized, increasingly emerging into existence. Adapting an argument from Hegel, we might say that the development of capital is the advance from the germ of the perfect to the perfect.<sup>71</sup>

Monopoly Capital represents this "perfecting" of capital, this qualitative alteration in the phenomenal form of capital. From a Marxist (in contrast to a bourgeois) perspective, monopoly capital is a more perfect, purer form of capital than that found in its historical infancy. As Sweezy has recently proposed, "the transformation of competitive into monopoly capital not only does not negate this relationship [the capital/wage-labor relationship—M.A.L.], it refines and perfects it."<sup>72</sup> The inner nature of capital thus comes increasingly to the surface. That which, for the very unfinished and undeveloped nature of capital, was the "esoteric possession of a few individuals" becomes "exoteric, comprehensible, and capable of being learned and possessed by everybody."<sup>73</sup> The illusions created by competition, the fetishism of commodities, the appearance of freedom for wage-labor, the illusory form of exploitation—all these are increasingly dissipated in the very development of capital, its tendency to become One.

To deny, then, a qualitative alteration in the phenomenal character of capital is a misplaced loyalty to the concept of capital. The problem with the Baran-Sweezy notion of monopoly capital has not been its focus on the need for a special theory of monopoly capital but, rather, its one-sided focus on the aspect of horizontal integration (with its corollaries of barriers to entry and differential profit rates). As incorrect is a position which privileges capital flows between branches of production as the highest form of competition, treating competition within particular branches as "primitive"; it is a position which, focussing on a form of capital's tendency, loses sight of its essence.<sup>74</sup> Both positions are one-sided. They fail to capture the whole of capital's tendency to become One, a tendency which in the real world proceeds unevenly (and which, accordingly, generates partial and one-sided analyses). Only the whole—the recognition of the three sides of capital's tendency to become One—however, represents Marx's position. At this late date, it should not be necessary to stress the importance of a special theory of monopoly capital, a theory which reflects the qualitative alteration of capital as its phenomenal form increasingly corresponds to its inner nature, a theory which focusses on those essential features which become increasingly manifest as capital perfects itself. Perhaps it is important, however, to emphasize the necessity for developing such a theory immanently out of Marx's concept of capital rather than through the usual practices of induction and empiricism so characteristic of post-Marx studies. The former approach, attempted here, allows us to situate a theory of monopoly capital in relation to Marx and reveals the later developments as

already latent in the concept of capital; the latter approach, however, necessarily always leaves unclarified the precise relation to Marx's work.<sup>75</sup>

### Notes

1. Paul A. Baran and Paul M. Sweezy, *Monopoly Capital*, New York: Monthly Review, 1966, pp. 3-4.
2. *Ibid.*, p. 6.
3. *Ibid.*, p. 5.
4. Paul Sweezy, *The Theory of Capitalist Development*, New York: Monthly Review Press, 1956.
5. Steve Zeluck, "On the Theory of the Monopoly Stage of Capitalism," *Against The Current*, Vol. I, no. 1, Fall 1980, p. 44; For a reply to Zeluck, see John Bellamy Foster, "Is Monopoly Capital an Illusion?" *Monthly Review*, September 1981.
6. Zeluck, *op. cit.*, pp. 50-52; John Weeks, *Capital and Exploitation*, Princeton, 1981, pp. 153, 157, 165-167; John Weeks, "The Sphere of Production and the Analysis of Crisis in Capitalism," *Science and Society*, Vol. XLI, no. 3, Fall 1977, pp. 286, 301; See also J.A. Clifton, "Competition and the Evolution of the Capitalist Mode of Production," *Cambridge Journal of Economics*, 1977, p. 150.
7. Hugh Mosley, "Monopoly Capital and the State: Some Critical Reflections on O'Connor's *Fiscal Crisis of the State*," *Review of Radical Political Economy*, Vol. 11, no. 1, Spring 1979, p. 53.
8. Clifton, *op. cit.*, p. 145; Philip L. Williams, "Monopoly and Centralization in Marx," *History of Political Economy*, Summer 1982.
9. Karl Marx, *Capital*, 1, New York: Vintage Books, 1977, pp. 929, 779, 777.
10. Karl Marx, *Capital*, 3, Moscow: Foreign Languages, 1959, pp. 172, 177, 192, 426.
11. Karl Marx, *Grundrisse*, New York: Vintage Books, 1973, p. 449; *Theories of Surplus Value*, 2, Moscow: Progress Publishers, 1968, p. 106; The discussion here draws heavily upon Lebowitz, "Marx's Methodological Project," unpublished manuscript, 1980; however see Roman Rosdolsky, *The Making of Marx's "Capital"*, London: Pluto Press, 1977.
12. Marx, *Capital*, 1, p. 433.
13. *Ibid.*, 3, p. 259.
14. *Ibid.*, 1, p. 433.
15. Marx, *Grundrisse*, pp. 651, 552.
16. *Ibid.*, p. 752.
17. Marx, *Capital*, 3, p. 356.
18. Marx, *Theories of Surplus Value*, 3, Moscow: Progress Publishers, 1971, p. 500; *Capital*, 3, p. 25.
19. *Ibid.*, pp. 43, 194.
20. Marx, *Theories of Surplus Value*, 3, p. 500.
21. Marx, *Poverty of Philosophy*, New York: International Publishers, 1963, pp. 49-50.
22. Marx, *Capital*, 3, p. 743; cf. also *Ibid.*, p. 192.
23. *Ibid.*, pp. 839-40.



24. Sweezy explicitly presents this position in his recent book, *Four Lectures on Marxism*, New York: Monthly Review, 1981, p. 63.
25. Friedrich Engels, "Outlines of a Critique of Political Economy," Marx and Engels, *Collected Works*, 3, New York: International Publishers, 1975, p. 441; Marx, *Poverty of Philosophy*, pp. 151-52; Marx and Engels, *Communist Manifesto* and Marx, *Wage-Labor and Capital*, in Marx and Engels, *Selected Works*, 1, Moscow: Foreign Languages, 1962, pp. 57, 104.
26. Marx, *Capital*, 1, p. 777.
27. *Ibid.*, p. 929.
28. *Ibid.*, pp. 777, 928-29.
29. Marx, *Capital*, 3, p. 430. Emphasis added.
30. Marx, *Theories of Surplus Value*, 3, pp. 314-15.
31. Marx, *Capital*, 1, p. 874.
32. *Ibid.*, p. 723.
33. Marx, *Theories of Surplus Value*, 3, p. 315.
34. *Ibid.*, p. 315.
35. Marx, *Capital*, 3, p. 241.
36. Marx, *Grundrisse*, p. 497.
37. Marx *Capital*, 1, p. 779.
38. *Ibid.*, p. 776.
39. *Ibid.*, p. 1035; Marx, *Theories of Surplus Value*, 3, p. 311.
40. Marx, *Capital*, 1, p. 780.
41. *Ibid.*, p. 778n.
42. *ibid.*, pp. 777, 778n, 780.
43. Marx, *Capital*, 3, p. 430.
44. Marx, *Theories of Surplus Value*, 3, p. 216.
45. Marx, *Capital*, 1, p. 515.
46. Marx, *Capital*, 3, p. 256-57.
47. Marx, *Capital*, 1, p. 515n.
48. Rodolosky, *op. cit.*, pp. 524-29.
49. Marx, *Capital*, 1, pp. 454, 463-65, 780.
50. *Ibid.*, p. 476.
51. Marx, *Theories of Surplus Value*, 3, p. 216.
52. Marx, *Capital*, 3, p. 174.
53. Marx, *Grundrisse*, p. 174.
54. Marx, *Capital*, 1, p. 1051.
55. Marx, *Theories of Surplus Value*, 2, p. 94.
56. Marx, *Capital*, 3, pp. 742-43.
57. Marx, *Theories of Surplus Value*, 3, p. 465.
58. *Ibid.*, p. 464.
59. Marx to Engels, April 2, 1858, in Marx and Engels, *Selected Correspondence*, Moscow: Progress Publishers, 1965, p. 104; Marx, *Grundrisse*, p. 275.
60. Marx, *Capital*, 3, p. 192.
61. Marx, *Capital*, 2, Moscow: Foreign Languages, 1957, p. 182 and *passim*.
62. Marx, *Capital*, 3, p. 494.
63. *Ibid.*, pp. 361, 394.
64. Marx, *Capital*, 1, p. 780.

65. Marx, *Grundrisse*, pp. 657-658; Marx-Engels, April 2, 1858, *op. cit.*, p. 104.
66. Marx, *Capital*, 3, p. 428.
67. *Ibid.*, p. 431.
68. *Ibid.*, pp. 380, 427.
69. *Ibid.*, pp. 205, 156.
70. Marx, *Grundrisse*, p. 530.
71. Cf. G.W.F. Hegel, *The Philosophy of History*, New York: Dover, 1956, pp. 22, 54, 57.
72. Sweezy, *op. cit.*, p. 65; also, see John Weeks, *Capital and Exploitation*, p. 167.
73. G.W.F. Hegel, *The Phenomenology of Mind*, New York: Harper and Row, 1967, p. 76.
74. Weeks, *op. cit.*, pp. 167-68.
75. Marx, *Grundrisse*, pp. 414, 310.

# On the Analysis of Advanced Capitalist Economy

David Levine

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The classical economists (especially Ricardo) thought of the accumulation process as the quantitative expansion of a producing structure. The productivity of this structure determined the rate of accumulation. For Ricardo, two factors determined productivity: the fertility of the soil and the subsistence wage. In the classical theory, the subsistence wage measured a kind of productivity—the rate at which corn produces labor. The fertility of the earth and the wage determined the rate of profit which measured the productivity of the producing structure.<sup>1</sup> As that structure expands, it uses up more terrain; and as it uses up more terrain it moves on to land of lower fertility. The rates of profit and accumulation fall. The classical theory of accumulation emphasizes the inexorable development of a material structure.

This is, by now, a familiar argument. Marx adopts the logical structure of the classical argument, modifying the application of the method rather than the method itself. For Marx, as for Ricardo, accumulation means the expansion of a producing structure. Again, the rate of expansion of the producing structure depends upon productivity. But, while for Ricardo the productivity of labor depends on the fertility of the land, for Marx it depends on the fertility of capital. Given the subsistence wage, the rate of profit depends upon the output per unit of capital (as expressed in the so-called organic composition of capital).<sup>2</sup> Thus, Marx is very much the classical economist in considering the accumulation of capital as a process of *productivity-limited growth*.

Two assumptions of the classical theory assure that productivity will determine the rate of growth: (1) that the requirements for reproducing labor (the subsistence) determine the wage, and (2) that capitalists or firms automatically reinvest their profits in plant and equipment. While, in laying out the basic argument of his theory of accumulation, Marx held strictly to these two assumptions, he was never entirely satisfied with them. Particularly in his analysis of the “General Law of Capitalist Accumulation” and of the “Schemes of Reproduction” Marx touches upon conditions under which one or both of these assumption do not hold. The rudimentary theory of the business cycle introduced toward the end of Volume 1 of *Capital* depends essentially both on the deviation of the wage from the subsistence level (as the demand for labor varies over the cycle) and on the determination of investment inde-

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\*I would like to thank Jane Knodell for comments on an earlier draft of this paper.

pendently of realized profit (without which there could be no business cycle). Josef Steindl goes so far as to note that, at this point, Marx makes the rate of accumulation effectively the independent variable.<sup>3</sup>

Somewhat similar results arise when Marx considers the process of expanded reproduction in Volume II of *Capital*. Again, the analysis, by and large, restricts itself to conditions of equilibrium under which the wage equals subsistence and surplus-value realized determines investment. Nonetheless, Marx also points out that nothing in the organization of capitalist economy assures equilibrium, and to this extent he allows, at least in principle, for an independent determination of accumulation; independent, that is, of the subsistence wage and the productivity of capital.

By so-doing, Marx breaks with the Ricardian version of the classical theory, and picks up the strand of argument of Adam Smith's *Wealth of Nations*. When Smith argues that the division of labor is limited by the extent of the market, he reverses the Ricardian methodology. We can put this proposition as follows: the productivity of capital *realized* depends upon the market which depends upon investment decisions of the particular capitals taken as a whole. Now, the accumulation of capital is a process of *market-limited growth*. The Marxist theory incorporates both the ideas of productivity-limited and of market-limited growth, although, for Marx, the market generally limits the growth process only by disorganizing it. While Marx's dominant conception remained that of a productivity-limited process, he never found the idea entirely satisfying. Looking back after one hundred years, we can note that he certainly never found it as satisfying as many of his followers have.

Of those economists working in the tradition of Marx, Paul Sweezy has made the most significant contribution to retrieving and developing the idea of market-limited growth. In *The Theory of Capitalist Development*, he attempts to recast the so-called underconsumption theory (evidently present in Marx's work) in an analytically satisfactory way. While the effort was not entirely successful, it did accomplish two important goals: (1) it established the roots in Marx for the introduction of the market as a significant determinant of the accumulation process, and (2) it laid the basis for subsequent work directed toward establishing a compelling argument for a market determined growth process.

The next step required a more definitive break with the Ricardian aspect of Marxian theory. In *Monopoly Capital*, written jointly with Paul Baran, Sweezy moves beyond some of the limitations of the Marxian theory retained in the earlier work, while remaining firmly within the broader tradition of Marxist scholarship. This work, with its roots in the contributions of Michael Kalecki and Josef Steindl, makes up an important part of a larger effort to (1) retrieve the valuable and enduring elements of the Marxist project, while (2) replacing those weak points in Marx's arguments (some of which were quite significant) with ideas developed over the past fifty years.

In his later work, Sweezy turns more to the problem of what distinguishes the dynamic properties of an advanced, or mature, capitalist economy. By so doing, he, in effect, finesses the more general theoretical issue concerning the validity of the productivity-limited approach to the theory of accumulation. This allows him to clear the way for a fresh approach to the problem, without directly rejecting the traditional Marxist theoretical apparatus. Since that apparatus proves to be cumbersome, and probably inappropriate, for the purpose at hand, Sweezy simply replaces it with one capable of dealing with the structure and movement of advanced capitalist economy.

The one change which carries the major burden in adapting the Marxist method to the problem of modern capitalism is in the unit of analysis. For Marx, following Smith and Ricardo, the economy consists of a myriad of individual commodity owners, and of relations between individual commodity-owners mediated by their property: specifically, property in living or dead labor. To be sure, these commodity-owners act as members of social classes and not upon the basis of their particular preferences. Thus, the ends which the individual capitalist pursues in the market are determined by the fact that he is (or is working to be) a capitalist, and not by any features of his particular personality. Nonetheless, the force of capital always acts through individual *agents*. These agents experience the requirements associated with the expanded reproduction of capital as their private goals. Thus, throughout *Capital*, Marx speaks as though individual capitalists take the active role in the economy; they even confront the individual worker on a one to one basis in the labor market.

However appropriate or inappropriate this conception may be to an economy made up of small owner-operated firms, it hardly begins to capture the fundamental organizing principles of an advanced capitalist economy made up of large corporations. To analyze the dynamics of such an economy, we need to define an appropriate unit of analysis: the firm rather than the individual commodity owner. An economy in which buying and selling takes place not between individual commodity-owners, but between individuals (e.g. workers) and firms, or between firms and firms, behaves differently from one made up of interactions between individuals (even individuals acting as agents of larger social forces). This difference can be felt at all levels of economic activity including price determination and the determinants of investment.

The early work which Sweezy did on price rigidity (the so-called "kinked" demand curve) represents a first effort to work out the implications of the new unit of analysis for capitalist dynamics. On a fundamental level, price rigidity arises because of the specific orientation of the economic agent to the market. This orientation looks decidedly different when the agents are firms rather than individual commodity-owners.

The individual agents of the classical theory took the condition of the market,

in which they pursued their private ends, to be immediately given facts. In particular, they treated their markets as (1) wholly outside of their control, and (2) ultimately unpredictable and capricious. Because of this, producers in the classical theory are constrained to adopt a short-run orientation toward production and marketing. Given the "take what you can get" attitude on the part of buyers and sellers, price flexibility naturally results. Producers act as price-takers, selling what they have produced at whatever price the market will bear.

This idea makes sense if either of two conditions hold. (1) The firm's products are so perishable that their "use-value" will disappear if they are not sold immediately. This condition places the seller at the mercy of immediate (current) market conditions. (2) The firm finds itself in such a weak financial position that, even though its products will not perish if held, the firm will perish if no revenue comes in during the current market period. We can imagine this second condition arising if the firm is the property of an individual capitalist whose personal income is equal to the profit accruing on current production. Even when the owner of the capital sells the entire product at whatever price the market will bear, there is no guarantee that the revenue forthcoming will be adequate to his reproduction.

The development of capitalism acts to free the unit of capital from both of these conditions. Traditionally, Marxists have treated this development as one which happens to capital as an unintended result of the competitive struggle. Marx himself links the growth and concentration of capital to the competition of capitals. According to this view, through accumulation, capitals grow until they reach a size which allows them to alter their orientation to other firms and to their markets. At the same time, their drive to expand leads to a struggle over the market which eliminates weaker competitors and leaves the survivors producing in markets over which they can, because of large size and small numbers, exert a powerful influence.

While this conception is valid so far as it goes, it leaves out of account the way in which creation of a new (modern) form of market organization acts as a conscious motive and intended result of capital's growth strategy. Firms which survive are those which work to organize themselves and their markets on a new basis. These need not be thought of as smaller firms which grow, more or less "naturally," to a point at which the new conditions are impressed upon them. Instead, we can think of new firms organized around the *idea* of adapting the market to serve their long-run goals. We should not, then, lose sight of the way in which the reconstruction of the market to serve the ends of long-run growth is a strategic goal and accomplishment of the firm itself.<sup>4</sup>

For the firm, an important goal is financial independence with respect to (1) its owners and (2) the vicissitudes of the market in the short-run. Through incorporation, the owners establish the firm as an object separate from their persons and from the limitations of their personal property. The firm begins to

take on institutional integrity and a life of its own: to develop into an entity *sui generis*. This extends the sources of finance, both internal and external, available to the firm, and gives the firm staying power to survive periods of weak demand without undermining either the price of the product or the profit margin. The firm allows demand to absorb inventories more slowly, but at a pre-determined price consistent with its long-run goals.

When the firm views itself as an enduring institution whose survival depends upon its ability to organize its markets rather than on caprice of demand, it undertakes specific activities aimed at adapting the market to this self-conception (realizing the idea which it has of itself). Thus, for example, perishability becomes, under advanced capitalism, subject to the discretion of the firm which can store perishable output or, by changing its form (e.g. canning), turn perishable goods into non-perishable goods. Under these conditions, the firm can hold its products until demand revives and they can be sold at the predetermined prices.

The firm can undertake various kinds of investment designed to protect it from short-period fluctuations in demand. It can also, however, go further, and attempt to influence demand for its products through advertising. In particular, a marketing effort can create brand loyalty and thereby earmark a share of the market for the particular firm; it can also affect the scale of need for the product, and the pace at which needs reproduce themselves through time (e.g. the rate of depreciation of commodities in use).

All of these conditions help to assure that the firm has sufficient staying power in the present to justify it in projecting itself into the future, and to act in the present on the basis of an idea which it has of where it will be in five or ten years. Stability of the market in the present allows the firm to make current pricing and investment decisions upon the basis of an idea which it has about the future. This idea translates into a strategy for accumulation. Current market position provides a base for expansion, which assures future market position.

In *Monopoly Capital*, Baran and Sweezy argue that modern firms act differently because of their "longer time horizon." This longer time horizon, together with the larger scale on which the modern firm operates, also make it a "more rational calculator" than its primitive ancestor. While, at first glance, this seems a somewhat thin conception of the basic distinguishing features of economic agents under advanced capitalism, on closer inspection, it does, indeed, fix upon certain of those fundamental distinguishing features.

Because of its staying power, the firm can treat its price as independent of fluctuations in demand, and determine price in accordance with structural forces operating over the long-run—especially costs and long-run competitive conditions. This has important implications for wages and profits.

Baran and Sweezy, following the methodology of classical political economy and Marx, treat money wage rates as though wages, or the wage structure, were uniform across firms and industries. This method has important implica-



tions for price determination since it tends to net out competitive advantages associated with heterogeneity of variations in wage rates. As a result of this, when wages rise, they rise uniformly, and do not provide competitive advantages to particular firms. Since no competitive advantages result, no pressures are set in motion to alter the relative prices of commodities. Given that firms consider price to be a strategic variable, and not a mechanism for clearing markets, it becomes reasonable for firms to respond to a uniform increase in the wage with a commensurate increase in prices. When prices respond to wages in this way, the real wage cannot be determined by the bargain over the money wage in the labor market. This means rates of profit and accumulation cannot be determined by the subsistence wage and productivity of capital. Thus, by changing the specification of the unit of analysis, Baran and Sweezy (following Keynes and Kalecki) undermine the argument of productivity-limited growth.

In attempting to replace classical theory with one more in line with the appropriate unit of analysis of advanced capitalist economy, Baran and Sweezy turn to the implications of falling unit labor costs for capital accumulation. In his *Maturity and Stagnation in American Capitalism* Josef Steindl provides the analytic basis for an argument regarding the dynamic properties of what he calls "mature" capitalist economies.

In a capitalist economy populated with firms making pricing decisions based upon long-run considerations, a fall in unit labor costs resulting from technical change will lead to a fall in price if it creates an opportunity for a struggle over market shares. If the progressive firms, which introduce the lower cost methods of production, can use their larger profit margins to finance a competitive struggle aimed at eliminating higher cost producers, price will adjust to changing costs in order to force high cost (marginal) firms out of the market.

If higher cost producers cannot be driven out of the market through price competition, price will tend to be inflexible downward, and the effect of falling costs will be to increase profit margins. Rising profit margins act in a way analogous to that of a rising propensity to save in the Keynesian theory. If the rate of investment is determined independently of the profit margin, the rise in the profit margin will mean that, corresponding to any given rate of investment, there will be a lower level of aggregate demand, output and employment. So far as the dynamic properties of advanced capitalist economies are concerned, this argument emphasizes a tendency toward slowing growth resulting from market limitations (inadequate demand).

It is an odd feature of this analysis that, while it assumes that firms will take an active part in organizing their markets so as to assure stability of price in the face of fluctuations in demand, it does not take the costs of doing so into account and treats the increase in profit margins as though it translates automatically into funds earmarked for investment in plant and equipment. Furthermore, since the analysis assumes that firms reinvest their profits in the

lines of production which generated them, it follows that as demand levels off in existing lines of production, so must investment. The argument intends to demonstrate how a mature capitalist economy will have difficulty recovering from a situation of slow growth and low levels of investment.

As Baran and Sweezy point out, use of gross profits for research and development, or for advertising, maintains effective demand even if gross profit margins rise. The possibility of new product development makes the rate of investment independent, to a degree, of aggregate demand generated by the accumulation of capital in existing industries. While these aspects of the growth process appear, in *Monopoly Capital*, as counteracting tendencies, they both stem directly from the logic of accumulation. Financing of the sales effort makes possible the organization of the market as a basis for long-run growth by protecting the firm from the vicissitudes of demand (at least that part of fluctuations in demand not associated with aggregate conditions). This effort can hardly be considered a mere counteracting tendency. On the side of product innovation, it needs to be born in mind that profit margins tend to rise because of technical progress stemming from the development of new producer's goods. Thus, to ignore the importance of product innovation is equivalent to analyzing only half of the process.

The stagnation theory is vulnerable to a criticism which Sweezy once leveled at the Marxian law of the falling tendency of the rate of profit.<sup>5</sup> The rate of profit tends to fall when technical change increases the organic composition of capital without affecting the costs of production of wages goods and therefore the rate of surplus-value. Marx treats the effect of innovation on the rate of surplus value just as Sweezy treats the effect of innovation on investment: as a counteracting tendency. But, as Sweezy points out, if what appears as a counteracting tendency is implied in the original process, it must be analyzed not as a counteracting tendency, but as part of the fundamental process.

Both increasing use of profits for advertising and product development and for investment in new lines of production are implied in the nature of the modern corporation. As such, they call into question the logic of the stagnation argument on a fundamental level. If we do not define the dynamics of advanced capitalist economy on the basis of the tendency toward stagnation due to rising profit margins and restricted investment outlets, how does the peculiar orientation of the firm to the market which distinguishes modern capitalism affect its dynamic properties?

### 3

Consider two distinct orientations of the individual economic agent toward the economy as a whole (the market). First, the individual economic agent treats the economy as an external object which either does not behave according to laws, or follows laws whose nature cannot be known. If the orientation of the

individual to the economy adopts this form, then the ability of the individual to act on the basis of expectations about the future will depend on the resistance of the economy to change. Individuals dependent upon a traditionally organized system of production and distribution may not be aware of the operation of laws of the economy (even assuming that such an economy has the capacity to display laws), but they can still organize their lives around the idea of a stable transition from the past to future, acting upon the basis of a firm notion of what the future will bring (at least so far as patterns of production and consumption are concerned). They can do so precisely because the future will be so much like the past.

Difficulties arise when the individual attempts to adopt this same orientation but within a dynamic (e.g. capitalist) economy. In this case, treating the economy as an inherently stable object which can be depended upon without knowledge of its laws of motion involves serious dangers. When agents within a capitalist economy treat that economy as an unknowable object, they cannot form reasonable judgements about the future and make reasonable decisions.

Capitalist economy requires that the individual agent adopt a second orientation toward the market. The development of this orientation marks the emergence of advanced capitalism and governs its dynamic properties. Within this second orientation, the individual treats the economy as an external object subject to laws, and subject to change in a lawfully governed way. Knowledge of these laws, or at least of the way they express themselves in the behavior of the market, allows the individual agent to form and act upon reasonable judgements about the future. This result develops not because the agents within the economy grasp the fundamental logic of the market (in a scientific sense), but because they (1) assume that the market, in all of its dynamic properties, is subject to an underlying logic, and (2) seek to understand the way in which that logic expresses itself concretely in the behavior of particular markets. For the firm to justify expenditure of revenues on market research, it must assume that something useful can be learned from market research; and this presumes that the market has certain logical properties which the firm can know and act upon. What assures that the market does indeed have these logical properties which make it sensible for the firm to adopt this second orientation?

When the firm adopts the second orientation to the market, it continues to treat the market as an external object. But, now, the object consists of economic agents many, or all, of whom act upon the basis of knowable laws. This means that the object, the economy, itself has changed. When firms act upon the basis of the idea that the market has laws which can be discovered, they contribute to assuring the lawfulness of the market.

Advertising provides a good example of the way in which the orientation of the individual to the market enters into determining the properties of the market. Advertising only makes sense when it is based upon a more or less sophisticated idea about how consumers behave. Advertising orients the firm

toward the abstract, or ideal, consumer. The firm assumes that individual behavior of consumers is not capricious, but follows certain rules (e.g. of individual psychology). Knowledge of these rules allows the firm to tailor its product to a mass market of consumers by tailoring its product to the ideal consumer. In this respect, advertising assumes that the economy is an object subject to knowable laws.

At the same time, however, the more that firms treat the economy in this way, the more the individual consumer defines himself upon the basis of ideals presented to him through advertising. The more the consumer develops the appropriate self-conception, the more he becomes a part of a mass market, the more rational it is for the firm to produce for a mass market subject to objective laws.<sup>6</sup>

With regard to the dynamic properties of capitalist economy, the development of the orientation of the firm to the economy leads to a crucial result. It allows the firm to act upon the basis of a long-period view while participating in a highly dynamic process of economic development. Acting upon the basis of its knowledge of how the market behaves, it can work to assure itself of the ability to preserve its institutional integrity over the long run, and to organize a process of economic development under its jurisdiction and in a form which contributes to its survival and growth.

As the economy develops, the objective conditions for economic agents to act upon the basis of the long-period standpoint also develops. At the same time, the idea of stabilization, and of the organization of the economy to facilitate long-run growth takes hold. Acting in accordance with this idea, economic agents work to mold economic organization to it. As a result of this, the stability required to assure that the participants in the economy can sustain themselves from period to period takes on the qualities of an *ideal*, a goal to be pursued, and a logical property of a rationally ordered economy. Stability at the level of the firm and its particular markets involves, as we have seen, a change in the orientation of the firm to the market. This change does not, however, restrict itself to the level of the individual market. Stability of the particular market also depends, in part, on stability of the economy as a whole, and the idea of macroeconomic stability connotes the same kind of fundamental development found at the microeconomic level.

Macroeconomic stabilization does not mean the absence of change. Stabilization of the economy as a whole is directed toward allowing the natural tendency of the economy to reveal itself in an *unencumbered* way. Just as stability in particular markets means organizing those markets around their intrinsic logic, and logic of development, stability for the economy as a whole

means protection of the logic of the process of aggregate growth from factors which are, with respect to that process, *contingent*.

This requires a specification of contingent factors. As it turns out, the way in which we specify which factors are contingent with respect to the growth process can profoundly affect the nature of that process. The idea of macroeconomic stability focuses on two factors, and by so doing defines them as outside of the fundamental process of economic growth. Those two factors are: (1) speculative investment and the associated short-run viewpoint, and (2) the link between income and employment with the associated fluctuations in output and demand.

The Keynesian theory ties these two factors together into a conception of instability and investment failure. Keynes emphasizes the way in which the short-run orientation of investors associated with speculative behavior threatens the process of capital formation.<sup>7</sup> Investment in plant and equipment entails a long-run commitment of capital to a form which links the capital to particular markets. To justify this kind of investment requires a conviction regarding the future course of demand and price in the relevant market. The value committed today must be set against the future prices of commodities produced over the lifetime of the capital.

By contrast, value invested in financial assets can be retrieved at short notice. If the investor acts upon the basis of accurate short-run expectations regarding the price of the asset, his return comes from price movements (capital gains) rather than profit on investment in a producing apparatus. For Keynes, the struggle between the short-run and long-run standpoints took the form of a struggle between financial and real assets. When financial assets win, the process of long-run growth falters.

In the context of advanced capitalism, we can turn Keynes' argument around. So long as the idea of the long-run remains vivid in the minds of investors, and prospects for profit-making remain robust, continued investment in plant and equipment will be assured. Once, however, agents begin to lose their conviction with regard to the reality of the long-run, the financial market begins to draw them away from capital formation. So while the disruption of the accumulation process may have its immediate source in the availability of alternative forms of investment, the attractiveness of those alternatives depends upon the weakness of the process of long-run growth.

The stronger the conviction that the long-run will dominate, the weaker the hold of speculation over investment, the greater the likelihood that the long-run will, indeed, dominate. This, from the point of view of capital, establishes the logic of its commitment to stabilizing the process of economic growth. On both the macro and microeconomic levels, stabilization means assuring that change takes place according to the fundamental trends built into the economy, and not according to the vicissitudes of individual decisions based upon a myopic view of the world. In this respect, macroeconomic stabilization is the antithesis of

planning. It neither directs nor controls the growth process, but seeks to assure that it progresses in a natural and unencumbered way.

Organization of investment around the long-period standpoint has a dampening effect on economic fluctuations since it tends to make investment decisions independent of current demand. At the same time a reduction in the fluctuations of demand will tend to reduce the tendency for firms to adapt investment decisions to current output and revenues. Stabilization of demand and output encourages a break between the short-run and the investment decision. Stabilization of output and demand requires stabilization of incomes because of the link between income and output. The primary source of economic fluctuations in a capitalist economy is the link between income and employment which supports cumulative processes of upward and downward movement of demand, employment, and investment.

Macroeconomic stabilization requires a weakening of the link between income and employment which can occur on both the micro and macro levels. As part of the effort to stabilize its own position, the firm can shift toward longer-run wage contracts which, to a degree, limit the dependence of employment on the short-run vicissitudes of demand. As part of the increasing emphasis on advertising and product development, an increasing proportion of employment involves activities unconnected to production of units of output, and therefore demand. Finally, the shift to overhead employment gains momentum if technical change allows for the replacement of labor by machinery. For all of these reasons, the work which firms undertake to stabilize their market positions also weakens the link between employment and current demand for their products.<sup>8</sup>

At the level of the economy as a whole, income supports for unemployed workers directly attack the link between income and employment. If income supports are sufficiently widespread, they will dampen economic fluctuations and help to assure stability of demand in particular markets. This stability of markets will, in turn, encourage the firm to determine investment upon the basis of long-run considerations, thereby further stabilizing the growth process.

The trend toward stabilization as a goal of economic activity has, as its object, to secure the process of long-run growth. But, the changing orientation of the firm to the economy as a whole, captured in the idea of stabilization, does not leave the growth process unaffected. In the next section, we consider the impact of the orientation toward stabilization on the dynamics of the economy.

## 5

From the standpoint of the firm, the object of stabilization, at both the level of the industry and of the economy as a whole, is to secure the process of capital accumulation over the long-run. Stability does not mean the absence of change,



but change taking place within a manageable context. Within this context, the firm can anticipate, and prepare for, economic development. When the firm's position is secure in the short-run, it can devote itself to planning for the future, and preparing to take advantage of the development of its markets.

Workers, or consumers, also have a stake in stabilization, partly because stability of their incomes depends upon macroeconomic stability, and partly because the idea of security applies to their individual circumstances as much as it does to those of the firm. While the ultimate goal of macroeconomic stabilization is not the security of incomes from work, but the stabilization of revenue from capital, macroeconomic stabilization accomplishes this latter goal by pursuing the former—stabilization of incomes. This tends to assure consumers that they will experience sufficient stability of income to allow for long-run planning. To be sure, such assurances develop in an uneven way, and, once given can be quickly dissatisfied. Nonetheless, the development of advanced capitalist economy brings with it a tendency toward stability of incomes for certain classes of workers—especially those in the more progressive industries and those paid out of overheads.

The more consumers experience this kind of security, the more they organize their lives accordingly. With long-run commitments based upon expectations of a stable flow of income, consumers establish modes of life based on their own long-period expectations. The more consumers and firms expect their incomes and revenues to flow in a secure pattern, the more they will develop dependence, within consumption and investment plans, on a stable flow of income and revenue. When economic agents organize their lives around the idea of stabilization, their lives come to depend on stability.

Stabilization of markets provides a measure of security to incomes by stabilizing the prices of, and demand for, the products of income-generating property (both labor and capital). On one level, this leaves intact the link between income and property which defines capitalist production. On another level, economic stabilization alters that relationship. When the goal of stability impinges on the relationship between income and property (especially in labor), that relationship becomes more and more formal. Income increasingly takes on the qualities of a long-term obligation for which periodic labor contracts provide the formal statement. Income accrues to property-ownership, since only property can claim income, but the claim of the individual's *property* to income now takes the form of a means, or mediating term, in a prior claim on the part of the *individual* to income.

Stabilization of individual markets and of aggregate demand stabilizes incomes. But, stabilization of demand and of markets also takes place through stabilization of incomes. Stability of incomes becomes part of the end of economic stabilization. This undermines the link between income and property by supporting the individual's claim to income based upon a long-run commitment to a mode of consumption. This claim develops with the

expectation of a secure stream of income, and the organization of consumption around that expectation. In this way economic stabilization places a floor on incomes. If incomes rise, new patterns of consumption become available. But, if incomes fall, consumption patterns to which consumers have made commitments cannot be maintained. To lower real wages is to threaten established modes of consumption, and to violate an implicit social obligation. Since this obligation works through the wage contract, economic stabilization means downward rigidity of wages. To be sure, so long as this obligation remains implicit, there is no guarantee that it will be fulfilled. Yet, even the development of an implicit obligation changes the basis upon which the economy functions by affecting the expectations, and therefore the behavior, of economic agents.

The conservative argument against stabilization emphasizes the rigidities which providing security of incomes and revenues injects into the system. Such rigidities develop both within the structure of industry and in the labor market.

When firms succeed in reorganizing the system of production and marketing on a basis conducive to short-run security and long-run investment planning, they assure that economic development takes place according to a rhythm dictated by the planned lifetime of capital. Through advertising, firms secure commitments on the part of consumers to their products, while macroeconomic stabilization assures consumer incomes. Barriers to new competition both depend upon and help to assure that competition flows into channels consistent with the long-run viewpoint and therefore with stability of market organization. In this way, the idea of stability translates into a rigidity of market structure and industry organization.

Stabilization does not eliminate competition, but tends to (1) channel it into the development of new products and industries outside of existing structures, and (2) assure that competition within existing industries either takes forms conducive to stability, or, if it does not take such forms, happens only at infrequent intervals. By affecting the forms of competition, stabilization can slow the growth process. So far as growth takes place through structural development, rigidities of structure can imply a lower rate of growth.<sup>9</sup>

A lower rate of growth need not be, in and of itself, significant. If, however, firms emerge outside of the economy which has developed a stable economic structure, this can threaten the security assured by the reorganization of the market. Thus, forms of competition antithetical to stability can arise from outside, so to speak, and when this happens those firms best adapted to competition within secure markets may also be very poorly adapted to competition which attacks the security of those markets. Stability of a region within an unevenly developing world economy can act as a competitive disadvantage which turns slowing growth into stagnation.

This problem will be exacerbated by rigidities in the wage. In particular, supports for incomes make the wage progressively less responsive to conditions



in the labor market. This means that a part of costs become rigid in a downward direction, and, if economic growth requires downward adjustment in costs, wage rigidity will impede growth. This argument rests on the assumption that economic progress requires flexibility of costs. But, under what circumstances will inflexibility of wages constitute an impediment to economic development?

If wages, or wage structures are uniform, but inflexible downward, then wage costs do not provide a basis for a competitive struggle between firms. This does not mean that competition weakens, but only that the competitive forces must seek an alternative outlet. Firms continue their struggle over markets, and the motives for innovation continue undiminished. Differentials in cost associated with productivity (determined, for example, by the age of capital equipment) continue to fuel the processes of competition and economic development. The growth of the economy will still depend on the vigor of the competitive process as that drives the firm to seek new forms of investment. Opportunities for innovation attract funds for investment, and investment creates the profits which finance innovation. An economy with a stable, and more or less uniform, wage structure will grow as rapidly as it can given its underlying ability to define opportunities for innovation.<sup>10</sup>

If wage costs are not uniform, the outcome will differ in important ways. Differences in wages can provide a basis for competition unconnected to innovation, and can reallocate profit and investment without providing any overall stimulus to the economy. When cost and profit differentials result exclusively from differences in wages, competition stimulates economic growth *unevenly*. Regions with high and inflexible wages will grow more slowly than the economy as a whole since they will lose investment to lower wage regions. The process of economic development brings with it irreversible changes in the labor market which tend to make wages inflexible in a downward direction. If this process occurs at different rates in different regions (because of historically specific factors), irreversible differences in wages will result. These differences, then, set in motion forces which support uneven growth.

While it might be argued that higher wage firms will have a special incentive to compensate for higher wages through innovation, lower wage firms also benefit from innovation and are also concerned to employ the most advanced technique. Indeed, if higher wage costs are associated with a longer history of production in the industry, the higher wage firms may also be employing older technique. In this case, the firm with the higher wage will be in a doubly disadvantageous profit position which can make it less likely that it will introduce new technique, and more likely that the lower cost and more rapidly expanding competitor will. In this case, competition results in uneven growth as investment and profits shift to those regions with lower wage costs, newer equipment, and rapidly expanding markets.

When competition of this kind develops, in order for the products of the mature industry to be sold competitively, both the capital invested and the labor

employed may have to be devalued. Devaluation of capital entails accepting the *de facto* depreciation of obsolete equipment implied by the development of more productive competitors, and therefore accepting a period of capital losses and low profits. Marx viewed this devaluation as the work of crises. He was able to do so because of his conception of competition. Since Marx assumed that commodities sold at market-clearing prices, he concluded that a severe contraction of effective demand would lower the value of invested capital by reducing the price of its products. When prices are not responsive to fluctuations in demand, however, the effect of a contraction on capital values will be blunted.

In advanced capitalist economies, even an extended contraction need not lead to devaluation of capital. Prices do not directly respond to demand, but depend instead upon the anticipated impact on demand of any lowering of price. A contraction *per se* does not affect the response which a firm anticipates to a decision to lower its price. Under these circumstances, aggregate conditions cannot directly bring about the fall in price and devaluation of capital implied in the Marxian conception. The result, instead, is contraction without devaluation—the worst of both worlds.

Firms will lower prices and devalue capital when they see competitive gains to be made by so doing. Steindl's argument, outlined above, depends heavily upon the assumption that a general contraction stimulates progressive firms to exploit competitive opportunities, partly through price competition. But these gains are defined for the more competitive firms, and contraction stimulates the growth of the stronger at the expense of the weaker. The implication would be intensification of the process of uneven development which works against mature regions.

Partly for this very reason, in mature capitalist economies, impediments develop which stand in the way of the devaluation process. If demand is artificially maintained (for example by government policy) the needed devaluation can be indefinitely delayed. When capital investment has been particularly great, low levels of profitability associated with a weakened competitive position can make the writing off and replacement of old equipment financially difficult or impossible. In the absence of anticipated gains made from devaluation, firms may *defer* (or draw out) the process, and by so doing create a foundation for stagnation.

In and of themselves, factors which encourage the rapid adjustment of the capital stock are desirable so far as they constitute a necessary part of the process of innovation and economic development. Within the structure of an advanced capitalist economy, however, the forces which work to bring about the devaluation of capital can undermine the basis for economic growth, by intensifying the process of uneven development. This result is reinforced by consideration of the implications of the devaluation of labor, or the adjustment of the wage to a "competitive" level. Not only does the devaluation of labor

destroy established consumption patterns and ways of life to which individuals have commitments, and over which they have legitimate claims, but, as the Keynesians have argued, the devaluation of labor weakens effective demand. It amounts, in this case, to an effort to strengthen particular markets at the expense of the whole. Furthermore, it can, by undermining modes of consumption, adversely affect just those particular markets (e.g. for new products) most in need of support.

If significant impediments exist to the devaluation process, having to do with the stabilization of economic structures and of aggregate demand, stagnation will be a likely outcome. While an advanced capitalist economy appears to face a choice between instability and stagnation, this choice turns out to be illusory when instability (rapid devaluation of capital and labor) exacerbates effective demand problems and contributes to stagnation.

The process of maturation of the economy brings with it the development of a set of interlocking rigidities (of wage costs and capital structure) which slow growth and, in the face of external competition, can lead to stagnation. These interlocking rigidities are also mutually reinforcing since each can adversely affect the profit position of the firm, its competitive capabilities, and therefore the growth rate of its market.

Thus, stabilization affects competition in ways which can undermine the growth process when the conditions of market stability (rigidity of market organization and of wage levels) do not apply uniformly to all economic regions. An advanced, or mature, capitalist economy may find itself at a competitive disadvantage due precisely to those factors which make that economy more advanced. This weakened competitive position will adversely affect its growth process.

## 6

Traditionally, theories of market limited growth consider the problem of accumulation on an aggregate level. For this reason, they seek to explain weaknesses in the growth of advanced capitalist economy by appealing to aggregate demand failure associated with the withdrawal of funds from the commodity circulation (savings, surplus, or gross profit). Because of the aggregate standpoint of these theories, they do not consider the implications of uneven development for economic growth. It turns out, however, that the analysis of the growth pattern of advanced capitalist economy depends fundamentally on two factors left out of account in the aggregate conception: (1) the irreversible changes in market structures (including structure of the labor market) and capital structures which define advanced capitalist economy, and (2) the uneven way in which these changes take place across economic regions. In *Monopoly Capital*, Baran and Sweezy begin to address the first factor, but

because they retain the aggregate standpoint, they do not follow through to its logical conclusion. Further progress requires that we link the analysis of advanced capitalist economy to that of uneven development.<sup>11</sup>

## Notes

1. Let  $r$  represent the rate of profit,  $w$  the wage rate measured in units of corn per unit of labor, and  $L$  the amount of labor. Assuming that capital consists entirely of corn advanced to hire workers, then, letting  $Y$  stand for output of corn and,  $y$  for output of corn per unit of labor, it follows that

$$r = (Y - wL)/wL \text{ or}$$

$$r = y/w - 1.$$

Since  $y$  is the productivity of labor into corn, and  $w$  the productivity productivity of corn into labor, the rate of profit measures the relation of two productivities (or fertilities).

2. Define  $Y$ ,  $v$ , and  $C$  respectively as the labor values of net output, variable capital, and constant capital. Then surplus-value ( $s$ ) is the difference between  $Y$  and  $v$ . Thus the capital-output ratio ( $k$ ) is

$$k = c/y = c/(s + v).$$

Dividing by  $v$ , yields

$$k = q/(e + 1)$$

where  $q$  is the organic composition of capital and  $e$  the rate of surplus-value. Thus, given the rate of surplus value, the organic composition of capital measures the productivity of capital ( $q = k(1 + e)$ ).

3. Josef Steindl, *Maturity and Stagnation in American Capitalism*, Oxford, Basil Blackwell, 1952.
4. See Alfred Chandler, *The Visible Hand: the Managerial Revolution in American Business*, Cambridge: Harvard University Press, 1977.
5. Paul M. Sweezy, *The Theory of Capitalist Development*, New York; Monthly Review Press, 1956.
6. Relevant aspects of consumer behavior are considered in David Levine, *Economic Theory*, Volume II, London: Routledge and Kegan Paul, 1981, pp. 137-145.
7. See David Levine, "Long-Period Expectations and Investment," *Social Concept*, Volume I, (January, 1984).
8. See K. Cowling, *Monopoly Capital*, London: McMillan, 1982.
9. Levine, *Economic Theory*, Vol. 2, pp. 215-233.

10. Uneven changes in the wage can act to channel competitive forces away from the constructive work of economic development. They can also, however, make a contribution to economic development if they provide increases in real incomes for a subset of workers who use those increases to create a market for new products.
11. We address the problem of competition and uneven development in (Levine *Economic Theory*, Vol. 2, Part III). The idea that uneven growth underlies the macro-economic problems of advanced capitalist economies does not, of course, imply that capitalist economies, in earlier stages of their development, grow evenly.

## Marx and Engels on Commodity Production and Bureaucracy

Ernest Mandel

### *Theoretical Bases of the Marxist Understanding of the Soviet Union*

The general relation between scarcity and the origin or continued existence of the state is clearly established by Marx and Engels. It is one of the cornerstones of historical materialism.

So long as the total social labor only yields a produce which but slightly exceeds that barely necessary for the existence of all; so long, therefore, as labor engages all or most all the time of the members of society—so long, of necessity, this society is divided into classes. Side by side with the great majority, exclusively of bond slaves to labor, arises a class freed from directly productive labor, which looks after the general affairs of society: the direction of labor, state of business, law, science, art, etc. It is, therefore, the law of division of labor that lies at the basis of the division into classes.

The state presents itself to us as the first ideological power over man. Society creates for itself an organ for the safeguarding of its common interests against internal and external attacks. This organ is state power. Hardly come into being, this organ makes itself independent vis-a-vis society; and, indeed, the more so, the more it becomes the supremacy of a particular class, the more it directly enforces the supremacy of that class. . . . But once the state has become an independent power vis-a-vis society, it produces forthwith a further ideology.<sup>1</sup>

Already in the *German Ideology* Marx and Engels had expressed the same fundamental thoughts, although based on a lesser economic and social-historical knowledge than they would attain in the 1870s and 1880s.

The withering away of the state and the abolition of classes—parallel processes for Marx and Engels—presuppose a universal level of development of the productive forces which makes possible the transcendence of scarcity and the all-round development of all individuals. That is, the subjugation of these individuals to the tyranny of the *social* division of labor is no longer

unavoidable. Or, to paraphrase Engels, the "common affairs of society" henceforth can be carried out by *all* and no longer by a *special apparatus*.

This "estrangement" (Entfremung) (to use a term which will be comprehensible to the philosophers) can, of course, only be abolished given two *practical* premises. In order to become an "unendurable" power, i.e. a power against which men make revolution, it must necessarily have rendered the great mass of humanity "propertyless," and moreover in contradiction to an existing world of wealth and culture; both these premises presuppose a great increase in productive power, a high degree of its development. . . . And, on the other hand, this development of productive forces (which at the same time implies the actual empirical existence of men in their *world-historical*, instead of local being) is an absolutely necessary practical premise, *because without it privation, want is merely made general, and with want the struggle for necessities would begin again, and all the old filthy business would necessarily be restored*; and furthermore, because only with this universal development of the productive forces is a *universal* intercourse between men established, . . . without this, (1) communism could only exist as a local phenomenon; (2) the *forces* of intercourse themselves could not have developed a *universal*, hence unendurable powers . . . and (3) each extension of intercourse would abolish local communism. Empirically, communism is only possible as the act of dominant peoples "all at once" and simultaneously, which presupposes the universal development of productive forces and the world intercourse bound up with them.<sup>2</sup>

From the basic theses of historical materialism it follows that the absence of socialism, even as the lowest, first stage of communism, in the Soviet Union and other like societies, has three material causes. These are: (1) the insufficient level of development of the productive forces; (2) the isolation of such societies from the hegemonic industrial nations, and (3) the necessarily resulting resurrection of the struggle over the satisfaction of material needs, or the return to the "same old shit." Trotsky expressed this most clearly in *The Revolution Betrayed*.

If the state does not die away, but grows more and more despotic, if the plenipotentiaries of the working class become bureaucratized, and the bureaucracy rises above the new society, this is not for some secondary reasons like the psychological relics of the past, etc., but is a result of the iron necessity to give birth to and support a

privileged minority so long as it is impossible to guarantee genuine equality.

The basis of bureaucratic rule is the poverty of society in objects of consumption, with the resulting struggle of each against all. When there is enough goods in a store, the purchasers can come whenever they want to. When there is little goods, the purchasers are compelled to stand in line. When the lines are verly long, it is necessary to appoint a policeman to keep order. Such is the starting point of the power of the Soviet bureaucracy. It "knows" who is to get something and who is to wait . . .

The present state of production is still far from guaranteeing all necessities for everybody. But it is already adequate to give significant privileges to a minority, and convert inequality into a whip for the spurring on of the majority. That is the first reason why the growth of production has so far strengthened not the socialist, but the bourgeois features of the state.<sup>3</sup>

The state as controller of a number of "the common affairs of society" (military, repression, administration, judiciary, currency regulation, infrastructure, taxation, etc.) which are distinct from the immediate economic activities of the ruling class or classes amounts to *a series of independent apparatuses, i.e. the bureaucracy*. It is the sum of these apparatuses which are freed from necessary participation in direct productive labor and can thereby devote themselves to the exercise of the above listed state functions. Specifically, these functions are exercised *separately from the rest of society* and in opposition to it ("independent vis-a-vis society"). So far as they express these ideas, speakers for the Polish opposition and above all for *Solidarnosc*, are better Marxists—even if they indignantly deny that "quality" themselves—than the leaders and cadre of the Polish United Workers Party who seek to deny this obvious state of affairs. The latter thereby completely revise Marxism as is also shown when they do not recognize these speakers as workers or even present them as "anti-working class." Marx taught us to judge people not according to what they say about themselves but by what they do and the objective consequences of their actions upon society.

In the Soviet Union and other similar social formations the state has obviously not begun to wither away and has rather continued to expand into a powerful independent force suspended above society. This is proof that we are still removed from a socialist classless society, that there are powerful social tensions, that the regulation of these tensions demands a strengthening of the bureaucratic apparatus and an increase in its autonomy; and that this strengthening of the bureaucracy is led by an enormous growth of material-social privileges.



*The state* is therefore by no means a power imposed on society from without . . . Rather, it is a product of society at a particular stage of development; it is the admission that this society has involved itself in insoluble self-contradiction and is cleft into irreconcilable antagonisms which it is powerless to exorcise.<sup>4</sup>

Revolutionary Marxists do not charge the Stalin faction of the ruling "communist parties" and their successors with having "caused" the monstrous growth of the state, of the bureaucracy, through "treason" or "political failures." It is the other way around: revolutionary marxists *explain* the victory, the political line and the ideology of the Stalin faction and its successors from the material and social conditions of the Soviet Union sketched above. The Stalin faction and its successors can be reproached (to the extent that "reproach" plays any role in history and politics for scientific socialism) with the following:

1. that they hide these circumstances by justifying bureaucracy with a special theory of "false consciousness," and thereby abandon Marxism and historical materialism in the interpretation of their society; in this they deceive the working classes of their own country and of the world with lies;
2. that in the name of "communism" and "Marxism" they have unleashed exploitation and repression processes of the broadest scope against workers, youth, laboring farmers, women and national minorities, which are crimes against the proletariat and socialism; and
3. that they have with their policies not limited "scarcity" and bureaucratic excesses to the minimum possible, but rather have developed them out of proportion. That is they did not and do not act in the interest of socialism or of the proletariat as a class, rather they subordinate these interests to the special interests of the privileged bureaucracy.

The single *general* question posed by this strict Marxist explanation of the hypertrophy of the state and bureaucracy in the Soviet Union is: were not the Mensheviks right, against Lenin and Trotsky, in opposing the Russian Revolution with the argument that Russia was not ripe for socialism?

The historical answer to this question is that the *process of socialist world revolution* is to be separated categorically from that of building a socialist classless society. *Russia* was in fact not "ripe" for the establishment of such a society. Until 1924 this was the common view of all revolutionary Marxists: not only of Lenin, Trotsky, Rosa Luxemburg, Bukharin, Zinoviev, Lukacs, Gramsci, Thalheimer, Korsch, Radek, etc., but also of Stalin. But the *world* was ripe for socialism. Indeed, already in *Anti-Duehring*, Engels took it as a given.

And, in fact, the abolition of classes in society presupposes a degree of historical evolution at which the existence, not simply of this or that particular ruling class, but of any ruling class at all, and, therefore, the existence of class distinction itself has become an obsolete anachronism. It presupposes, therefore, the development of production carried out to a degree at which *appropriation* of the means of production and of the products, and, *with this, of political domination, of the monopoly* of culture, and of *intellectual leadership* by a particular class of society has become not only superfluous but economically, politically, intellectually a hindrance to development.

*This point is now reached.* . . . The possibility of securing for every member of society, by means of socialized production, an existence not only fully sufficient materially, and becoming day by day more full, but an existence guaranteeing to all the free development and exercise of their physical and mental faculties—*this possibility is now for the first time here*, but it is here.<sup>5</sup>

Since it was here in 1875, it was incomparably more so in 1917.

But the seizing of the means of production by the worker's state is a *political act*, linked not only to material but also to subjective preconditions. On the basis of the discovery of the law of uneven and combined development, Trotsky could recognize and predict after 1905 that *in the framework of imperialism*, with the unique combination of socio-economic backwardness and socio-political overripeness, the proletariat of some less developed industrial countries like Russia would find it possible to break the state power of capital before this would be possible in the most developed industrial nations.

*At one and the same time*, imperialism hinders the full development of the objective preconditions of socialism in the backward countries (the complete development of capitalism) and the subjective conditions for socialism in the highly industrialized countries (the full development of proletarian class consciousness). But precisely out of the combination of both of these processes arises the conclusion that indeed the socialist world revolution can *begin* in countries like Russia but that the full development of a socialist society could never take place there. As Rosa Luxemburg concisely expressed it:

In Russia the problem could only be posed. It could not be solved in Russia. As in this sense, the future everywhere belongs to "bolshevism."<sup>6</sup>

Later Lenin expressed this same idea with his concept of the "weakest link" where the imperialist chain first breaks. The complete tragedy of the 20th century rests in these thoughts.

The Russian October Revolution, not as the means for the "development of

socialism in one country,' but as the motor of the socialist world revolution: from the very beginning that was the historical justification that Lenin, Trotsky, Luxemburg and their comrades gave the October Revolution. Once again Rosa (one could add dozens of quotes from Lenin, Trotsky, Bukharin, Zinoviev):

Let the German socialists cry that the rule of the Bolsheviks in Russia is a distorted expression of the dictatorship of the proletariat. If it was or is such, that is only because it is a product of the behavior of the German proletariat, in itself a distorted expression of the socialist class struggle. All of us are subject to the laws of history, and it is only internationally that the socialist order of society can be realized. The Bolsheviks have shown that they are capable of everything that a genuine revolutionary party can contribute within the limits of the historical possibilities. They are not supposed to perform miracles. For a model and faultless proletarian revolution in an isolated land, exhausted by world war, strangled by imperialism, betrayed by the international proletariat, would be a miracle. What is in order is to distinguish the essential from the non-essential, the kernel from the accidental excrescences in the policies of the Bolsheviks. In the present period, when we face decisive final struggles in all the world, the most important problem of socialism was and is the burning question of our time. It is not a matter of this or that secondary question of tactics, but of the capacity for action of the proletariat, the strength to act, the will to power of socialism as such. In this, Lenin and Trotsky and their friends were the *first*, those who went ahead as an example to the proletariat of the world; they are still the *only* ones up to now who can cry with Hutten: "I have dared!"<sup>7</sup>

With the First World War a virtually uninterrupted string of revolutions were set in motion through the explosively heightened internal contradictions of imperialism and the capitalist mode of production. These revolutions were advanced to the utmost by the Russian October Revolution and the founding of the Soviet state—or objectively made easier—but they were not caused by it. This *real process* of the socialist world revolution, with the possibility of the victory of the revolution in the industrial countries, was for a time advanced and not hindered by the Soviet state. The possibility for the world-wide realization of socialism advanced in this time, despite the impossibility to realize an isolated socialism in Russia.

## II

The contradiction between commodity production and a society of associated producers, i.e. socialist society as the lowest level of communism, is among the basic elements of historical materialism. For Marx and Engels the effect of commodity production was in no way limited to the fact that historically it enabled the accumulation of capital, the expropriation of the small producers' means of production by capital and the exploitation of the proletariat is carried out by a class of owners of capital. It is conceived of much more broadly.

The members of the community are directly associated for production; the work is distributed according to tradition and requirements, and likewise the products to the extent that they are destined for consumption. *Direct social production and direct distribution precluded all exchange of commodities, therefore also the transformation of the products into commodities* (at any rate within the community) and consequently also their transformation into *values*. From the moment when society enters into possession of the means of production and uses them in direct association for production, *the labor of each individual, however varied its specifically useful character may be*, becomes at the start and *directly social labor*. The quantity of social labor contained in a product need not then be established in a roundabout way; daily experience shows in a direct way how much of it is required on the average . . . It [society] could therefore never occur to it still to express the quantities of labor put into the products, quantities which it will then know directly and in their absolute amounts, in a third product, in a measure which, besides, is only relative, fluctuating, inadequate, though formerly unavoidable for lack of a better, rather than express them in their natural, adequate and absolute measure, *time*. . . . Hence, on the assumptions we made above, society will not assign values to products. It will not express the simple fact that the hundred square yards of cloth have required for their production, say, a thousand hours of labor in the oblique and meaningless way, stating that they have the *value* of a thousand hours of labor.<sup>8</sup>

In his *Critique of the Gotha Program*, Marx expressed precisely the same ideas:

within the co-operative society based on common ownership of the means of production, the producers do not exchange their products; just as little does the labor employed on the products appear here as

*the value* of these products, as a material quality possessed by them, since now, in contrast to capitalist society, individual labor no longer exists in an indirect fashion but directly as a component part of the total labor. The phrase "proceeds of labor," objectionable also today on account of its ambiguity, thus loses all meaning. *What we have to deal with there is a communist society*, not as it has developed on its own foundations, but on the contrary, *just as it emerges from capitalist society*; which is *thus in every respect, economically, morally and intellectually*, still stamped with the birth marks of the old society from whose womb it emerges. Accordingly, the individual producer receives back from society—after deductions have been made—exactly what he gives to it . . . Hence, *equal right* here is still in principle—*bourgeoise right*—although principle and practice are no longer at loggerheads.<sup>9</sup>

Alongside the endurance and hypertrophy of the bureaucratic state apparatus, the persistence of commodity production is conclusive evidence that, from the standpoint of historical materialism, in the Soviet Union and other similar social formations there is *no socialist* economy or society, no fully developed socialization of the means of production or production process.

Apologists of the Soviet bureaucracy (supported by the well meaning smiles of bourgeois and petty bourgeois ideologists in the West) argue against this in two ways. On one hand they say that Marx and Engels were wrong concerning the "real movement" of socialism, and that "praxis" has proven that there can be socialism with a "strong state," commodity production and exchange. They recall that the two old men always reiterated that communism is not a goal to be achieved but a "real movement" which abolishes "the present state of things," i.e. private property.

This reductionist viewpoint rests on an obvious falsification of a quote from the *German Ideology*:

. . . with the abolition of the basis, private property, with the communistic regulation of production (and, implicit in this, the abolition of the alien attitude (Fremdheit) of men to their own product), the power of the relation of supply and demand is dissolved into nothing, and men once more gain control of exchange, *production and the way they behave to one another?*

Communism is for us not a *state of affairs* which is to be established, an *ideal* to which reality (will) have to adjust itself. We call communism the *real* movement which abolishes the present state of things. The conditions of this movement result from the now existing premises.<sup>10</sup>

Marx and Engels say precisely that the abolition of the current circumstances—the direction of the "real movement of communism"—is not limited to the abolition of the private property in the means of production. Rather it includes at least:

1. the abolition of the means of production as private property;
2. the abolition of commodity production and the withering away of money;
3. the abolition of exchange (and private property) of consumption goods, at least within the commune;
4. the control of the producers over the product of their labor and their work relations, which includes among other things, the immediate power of disposal (direct access) of the associated producers over the means of production and consumption goods; and
5. the control of the people themselves over their behavior among themselves which, among other things, excludes a repressive apparatus which stands apart from society.

A detailed accounting of empirical data is not necessary to prove that the Soviet Union and other similar societies are far from having fulfilled these conditions. There has *not yet been a real movement* which, anywhere in the world, has abolished the "present state of things."<sup>11</sup>

On the other hand, apologists of the bureaucracy charge revolutionary Marxists and other "left critics" with consciously pushing the claims of socialism into lofty heights so that they can then triumphantly claim that the reality in the Soviet Union and other places does not measure up to the "ideal."<sup>12</sup> This, according to them, is "historical idealism," "normative utopia," "moralizing" instead of employing the categories of historical materialism, etc. etc.

Against this we reiterate that historical materialism means precisely that scientific categories (including "norms") are nothing other than *the products of real relations*, and not the products of "false thinking" or the products of "diabolical anti-communism." The *material basis* of the "categories" commodity, value, and money in the Soviet Union and other like societies is evidently the absence of any thorough-going socialization of production. There is still no immediately social character of labor and still no direct access of the producers to the means of production and consumption goods, therefore *no* totalabolition of private labor and private property.

In other words: it is not because social conditions in the USSR do not conform to Marx's "norms" that they are "bad" and "not-socialist" (such an argument would indeed be idealistic and "normative"). It is because overwhelming empirical evidence proves that these conditions are still partially exploitative, very oppressive and alienating, that they are "bad," and "unsocialistic." The fact that they likewise do not conform to Marx's definition of socialism confirms that Marx's norms were right about what socialism should be all about. These "norms" about socialism appear to be

neither "idealistic" nor "utopian" projections, but necessary preconditions for a classless non-exploitative and non-oppressive society.

Neither in the Soviet Union nor anywhere else is a socialist reality to be found. The bureaucracy, the international bourgeoisie and their mutual ideologists assert the opposite because it is in their interests. The interest of one is to conceal or apologize for the inequality, the material privileges, and the monopoly over power which exists in the USSR. The interest of the other is to deter the working class from socialism in the West, so they represent the real circumstances in the Soviet Union and elsewhere as . . . "real existing socialism."

Less clever apologists add: "left opportunist" critics of Soviet society confuse socialism with communism. What is requested of a socialist society will only be possible in a communist society. These apologists forget Lenin's clear characterization:

It is this communist society, *which has just emerged into the light of day out of the womb of capitalism* and which is in every respect stamped with the birthmarks of the old society, that Marx terms the "first," or lower, phase of communist society. The means of production are no longer the private property of individuals. The means of production belong to the whole of society. Every member of society, performing a certain part of the socially-necessary work, receives a certificate from society to the effect that he has done a certain amount of work . . . But when . . . having in view such a social order (*usually called socialism*, but termed by Marx the first phase of communism) . . . <sup>13</sup>

They also forget that the very same definition of socialism exists likewise in the above quoted passages of Marx and Engels. They also forget that the entire Marxist tradition from 1875 to 1928, possibly excepting Karl Kautsky, based itself on the same definition. Indeed Stalin repeated it as late as 1928!<sup>14</sup>

Pure question of definition? By no means. One can only maintain that commodity production and the law of value continue to operate in a socialist society, if one rejects the whole of Marx's *Capital*, I, and its analysis of the commodity, of value, of exchange value and of the law of value. But that implies not only the rejection of Marx's definition of socialism but also the rejection of his entire analysis of capitalism, surplus value, and the labor theory of value, the analysis of the origins of classes and the state, i.e. all of historical materialism. Anybody has the right to assert that history refutes these theories of Marx. But no one has the right to the label "Marxist," i.e. to claim adherence to the scientific discoveries of Marx, while simultaneously dishing up theory on the essence and dynamic of commodity production, value, and the law of value, money, capitalism and socialism which stand in total contradic-

tion to those of Marx.

Marx's remark that under socialism (the first, lowest phase of communism) "bourgeois rights" are still in force can in no way imply the continued existence of commodity production and the law of value. The above quote from Marx's *Critique of the Gotha Program* affirms just the opposite. In spite of the disappearance of commodity-and-value-production under socialism, bourgeois right is still dominant because there is *only formal equality* (exchange of equivalent quantities, individual labor immediately recognized as social labor). However, due to the fact that different individuals have different needs and different capacities to produce units of labor, some will satisfy their needs and some will not.

By contrast what exists in the Soviet Union and elsewhere today is *not* formal equality in the distribution of consumer goods, but rather enormous and growing *formal inequality*. In exchange for eight hours of labor, one person receives x consumption goods and the other receives for the same eight hours of labor 10 or 20 x consumption goods (considering not only the money wage but also the distribution of consumption goods and services *in natura*). That is "bourgeois right" far beyond Marx's notion for the first stage of socialism. And *from this it follows*, just as it follows from the continued existence of commodity and value production, that the general struggle for personal enrichment, the "struggle for existence," the cold calculation of "personal advantage," continue to dominate society (even if not to the same degree as capitalism). It is not primarily out of the "residues of capitalist ideology" or from the "influence of the West" that this social dynamic arises above all, rather it arises above all *out of the existing socio-economic structure of the Soviet Union itself*.

Here again we find, in a different way, the same scarcity, the same insufficient development of the productive forces, which already served to explain the continued existence and hypertrophy of the state and bureaucracy. Distribution, power and legal-relations cannot stand qualitatively higher historically than is permitted by the development of the productive forces. How distribution takes place and who does the distributing finally depends on how much there is to be distributed, i.e. how much has been produced. The strongest will, the most beautiful intentions and the highest idealism cannot alter this in the long run. Unless Soviet society combines with some of the most advanced industrial sectors (West Europe, Japan, North America), there will be no socialism. The fate of socialism continues to depend on the fate of capitalism, the ultimate victory or defeat of the world proletariat, of the world revolution.

This dispenses with a misunderstanding often laid at the feet of revolutionary Marxists. For Marxists soberly to maintain that continuing commodity relations in the Soviet Union and elsewhere proves that there are not socialist societies does not mean that they are "demanding" that the state or the indigenous working class "immediately" put an end to commodity production



and money, dissolve the state, or other similar nonsense. Commodity and value production cannot be "abolished" arbitrarily, just as little as the state can be artificially "suppressed" by one stroke arbitrarily. They can only gradually wither away. The fact that in the Soviet Union, rather than wither away, they continue to grow, is an irrefutable component of a Marxist, critical-objective, scientific analysis of that society. But it is not a basis for irresponsible, irrational suggestions.

Under the given internal and external circumstances, the survival of commodity production and money circulation is unavoidable, as is the workers state. If it were artificially "abolished" overnight, there would follow a quick disintegration of the existing relations of production, *not* for the benefit of socialism but rather ultimately to the restoration of capitalism.

The *concrete* suggestions first for reform of the Soviet economy and society and then for a political revolution, elaborated by revolutionary Marxists, never called for the immediate "halt" to commodity production. Rather they called for its optimal inclusion within a system of socialized production and planning which *also* aimed at an optimum *long-term* development of productive forces and *really socialist relations of production*. The one cannot be separated arbitrarily from the other, nor indeed can they long stand in opposition. Without an increase in the actual productive forces, no socialism; but without actual socialist relations of production, the building of socialism is just as impossible. It cannot be a matter of "first" producing so many tons of steel, cement, or number of autos, houses, etc., and "then" (through what we wonder?) the producers will become the masters and mistresses of their working and living conditions. *At the same time* and in a constantly interacting process, progress must be made on the front of production and productivity of labor, and on that of increasing the self administration of the workers in the economy and in the state, (the actual power of the councils, of socialist democracy). Without decisive progress in workers self-management, in social equality and political democracy, the sources for the further development of the productive forces gradually dry up, one after the other.

Similarly, it is completely inappropriate to charge the revolutionary Marxist critics of the Stalinist thesis on "building socialism in one country" with advocating necessarily the alternative to either broaden the basis for

socialism through "revolutionary war" or return to the circumstances which adhered prior to November 7; thus the dilemma of adventurism or capitulation. In this regard, history does not justify a rehabilitation of Trotsky; concerning the decisive strategic questions of the time, Stalin was completely right.<sup>15</sup>

This open falsification of history accepts legends of the Thermidorean bureaucracy which are directly refuted by the documented debate occurring

within the CPUSSR and the Comintern from 1923 to 1929. Far from being trapped in the dilemma described by Lukacs, Trotsky and the Left Opposition—first against Stalin-Zinoviev, then against Stalin-Bukharin, and finally against the Stalin faction alone—argued that the communists had two tasks to accomplish *at one and the same time*. First, they had to accelerate the industrialization of the Soviet Union, to introduce economic planning, to raise the technical basis of agriculture (aided by industrialization), and to reorganize it on a cooperative basis with the freely given agreement of the effected peasants. Simultaneously, they had to internationally broaden the revolution *according to the internal laws and structures of the class struggle in each country*, (not according to the conjunctural necessity of defending the Soviet Union). This line likewise rejected capitulation as well as adventurism, as indicated in Trotsky's critique of the Comintern programme:

During the Third Congress (of the Comintern), we declared tens of times to the impatient Leftists: "Don't be in too great a hurry to save us. In that way you will only destroy yourselves and therefore, also bring about our destruction. Follow systematically the path of the struggle for the masses in order thus to reach the struggle for power. We need your victory but not your readiness to fight under unfavorable circumstances. We will manage to maintain ourselves in the Soviet republic with the help of the NEP and we will go forward. You will still have time to come to our aid at the right moment if you will have gathered your forces and will have utilized the favorable situation."<sup>16</sup>

Finally, in the framework of theory of permanent revolution, the understanding of the laws of uneven development and combined development does not imply that the peoples of the less industrialized countries can do nothing for their own liberation and must wait for the victory of the proletariat in the advanced industrialized nations to create the basis for the successful building of socialism. On the contrary, on the basis of his theoretical knowledge, Trotsky drew the conclusion that only a socialist revolution in the backward countries could free them from the frightful inheritance of barbarism which weighs down upon them. In the age of imperialism, capitalism is incapable of cleaning out this filthy stall as it had done for the most part historically in the West. For this reason alone the socialist revolutions in the third world are fully justified. They alone can achieve the unaccomplished tasks of the bourgeois-democratic revolution, and therewith make *a beginning* in the development of socialism. But this process *cannot be completed* on the too small economic and social bases of these countries alone. To be completed, its successful broadening to the leading industrialized lands is necessary.

## III

Does it follow from our discussion that on the basis of the low development of the productive forces in the Soviet Union the bureaucracy has become a ruling class: either a "state capitalist" or a "new" one? By no means. To refute this mechanistic thesis, the peculiar contradictory relationship between commodity production or the operation of the law of value on one side, and bureaucratic domination on the other needs close examination. This contradictory relation (which leads to specific, hybrid, relations of production which are historically not automatically reproducible) must be embedded in the more general problematic of transitional societies, and "progressive" historical modes of production.

It contradicts the theses on historical materialism as developed by Marx and Engels, to restrict the history of commodity production to the epoch of capitalism. Exchange value and commodity production and therefore also the workings of the law of value existed centuries before the emergence of the capitalist mode of production. What distinguishes the different forms (with different degrees of expansion) of simple commodity production from capitalism is the fact that it is only under capitalism that commodity and value production *become generalized*. Only in this mode of production do the means of production and labor power in general become commodities. While capital, capitalism and their contradictions are already present *in embryo* in the simple commodity, this is nevertheless only true *in embryo*. To fully develop, a whole series of *additional* economic and social conditions must be created to enable this embryo to grow within and then to break through its shell. In the West and in the East, this process lasted centuries. In the least developed countries, it still has not been completed.

Obstacles to the process have been tremendous. To name only one: the need for separating producers, overwhelmingly peasants, from direct access to the land. Without such separation, the full-scale development of the capitalist mode of production and the transformation of the direct producers into wage-earners is impossible. But the separation of the peasants from their elementary means of production and subsistence demands *an enormous transformation of property relations in the country-side*. Slave plantation and state-land, as well as the original village communities with their *de facto* power of disposal over land (be it in the framework of the "Asiatic mode of production" or in "pure" feudalism) are absolute obstacles to such a transformation. They must be smashed. And in addition, powerful economic, social and *political* transformations are necessary in production and trade, town and countryside. The very slowness of their ripening resulted, even in the advanced areas of Western Europe, in the coexistence for nearly half a millenium of simple commodity production and predominantly non-capitalist production relations.

This *transition phase* from feudalism to capitalism displayed a hybrid combination of commodity production and the production of use values alone. The law of value functioned in the sphere of commodity production in a special form unique to this *transitional society*. But for a very long period it functioned slightly or not at all in the villages. A European peasant in the early Middle Ages or an Indian or Chinese peasant does not alter the size of his grain crop according to the fluctuation of market prices so long as this production is primarily for subsistence. Taxes, war, or famines might raise or (sometimes drastically) lower the portion of total use values produced from production which remains left for his subsistence. But this does not automatically transform him into a commodity producer dependent upon the market (i.e. upon the law of value). For this to happen, a transformation of *property relations* in the village is required (property relations understood here not just in a juridical but in an economic sense). A *de facto* separation of the peasant from free access to the land is necessary. We define this hybrid society with the formula: the law of value indeed *functions* in such transitional societies, but it does not *rule*. The distribution of the socially available productive resources between the various branches which produce use values is not determined by the law of value but rather by the needs of the peasants, their previous production techniques, their habits, their traditions, their community organization, etc. Marx's analysis on this is well known.<sup>17</sup>

Such hybrid relations of production do not necessarily lead to the stagnation of the productive forces and of society. The *contradiction* between the traditional economy and the slowly developing commodity production within it (including the spread of usury and commercial and manufacturing capital) in the long run can produce an economic and social dynamic which ultimately leads to the dominance of the law of value and the capitalist mode of production. Nevertheless this is a *concrete historical process* which must be concretely studied and empirically shown. It cannot be based on abstract and mistaken syllogisms (emergence of commodity production=dominance of the law of value=capitalism=rule of a capitalist class).

The parallel to the economic and social structure of the Soviet Union and other similar societies is striking. As with simple commodity production in pre-capitalist societies, in the transitional society between capitalism and socialism commodity production endures. However, it is *not a generalized* but only a *partial* commodity production. Consumer goods and means of production exchanged between the agricultural cooperatives and the state are commodities, as are those products involved in foreign trade. But the mass of the large means of production are not commodities; nor, for the most part, is labor power. There is no market, properly speaking, for the mass of machines, raw materials or labor.<sup>18</sup> The distribution of resources among the various branches of production does *not* take place on the basis of the law of value. Machines and labor power do not move from branches with lower to branches with higher

"rates of profit." Prices (and certainly not world market prices) and profits are not the signals determining investment. Not the law of value, but rather the political leadership, i.e. the bureaucracy, are ultimately decisive for determining the proportions of the social product which are distributed and for the dynamic of the economy as a whole. The Soviet economy is not a generalized market economy. It is a centrally allocating economy, a centrally planned economy.

But it is not a "pure" allocating economy. It is a *hybrid coupling* of an allocating economy and commodity production in which the law of value does not dominate but still functions. And this hybrid limits ultimately the scope and the boundaries of the despotism of the bureaucracy.

On the one hand the arbitrariness of the bureaucracy is hemmed in by the internal objective constraints due to the material limits of the allocating economy. The bureaucracy can indeed despotically determine that certain industrial branches receive first choice of rare, e.g. technically advanced resources (for example, heavy industry, weapons industry, space travel, gas pipelines to Western Europe, etc.). It cannot, however, free itself from the laws of expanded reproduction. Each disproportionate shifting of economic resources to the benefit of a distinct branch of the economy leads to increasing disproportions which finally *must* become a limit on the favored industries.<sup>19</sup> Soviet economists themselves now admit that too small investments in agriculture (and in infrastructure, in the last analysis, especially transport and distribution) led to enormous disproportions which undermined the productivity of labor including in heavy and weapons industry and diverted an increasing proportion of Soviet economic resources to the import of foods instead of machines, modern technology, etc. This is only one aspect of the problem. A thousand strings intertwine the non-commodity producing sectors with the commodity-money relations, despite all pressure, terror, despotism and bureaucracy.

On the other side, the arbitrariness of the bureaucracy is hemmed in by the limits of the capitalist world market. On the world market the law of value *dominates*. There, for the most part, there is only *one* price structure determined by the law of value. All foreign trade of the Soviet bloc (including the trade within the bloc) ultimately takes place on the basis of world market prices.

The hybrid intermediate position of the transitional society in the USSR finds striking expression in its *double price structure*. One series of prices is determined by the law of value. Another series of prices is arbitrarily laid down by the planning authorities. This second group of "prices" is *still* dominant in the Soviet Union. Therefore the Soviet economy is *still* a centralized allocating economy—protected by the monopoly of foreign trade—i.e. a planned economy. But, the more that the proportion of foreign trade increases in relation to the Gross Social Product in one of the countries of the Soviet bloc,

the more the constraints of the world market grow, and the more "planned" prices are influenced by the law of value. All the more does this impinge upon the distribution of economic resources within the state sector of the economy. All the more is the material-social *possibility* of the planned economy, i.e. the central allocation of decisive economic resources, constrained and delayed. The conflicts between the "political" and the "technocratic" wings of the bureaucracy, between the "central" planning offices and the managers, are ultimately a reflection of this objective contradiction.

We conclude that although the continued existence of commodity production and the domination of the bureaucracy spring from the same *sources* (the isolation of the socialist revolution in an area of the world that was relatively backward industrially), over the long run they move in completely different directions. The bureaucracy cannot consolidate its domination *as bureaucracy* without significantly limiting the functioning scope of the law of value; *therefore*, in the final analysis, it remains bound to the collective ownership of the means of production, to the planned economy, and to the monopoly of foreign trade. Commodity production and the functioning of the law of value cannot become generalized over the long run without breaking the despotism of the bureaucracy.

Here we find the decisive reason why the bureaucracy has not become a ruling class. It *cannot become one by becoming a "new" ruling class* but only by transforming itself into a "classical" *capitalist* class. *For a "new bureaucratic" (non-capitalist) mode of production to arise, the Soviet bureaucracy would have to permanently free itself from the law of value.* This demands not only the dissolution of exchange-based distribution relations inside the Soviet Union, it also demands emancipation from the capitalist world market, i.e. the elimination of capitalism on a world scale, at least in the most important capitalist industrial nations. This in turn depends upon the final outcome of the class struggle between capital and working class on a world scale. So long as this struggle is not finally decided, i.e., so long as we have not experienced either the victory of socialist world revolution or the self-dissolution of the bourgeoisie and the working class in a "new barbarism" or in radioactive dust, the fate of the Soviet Union and the Soviet bureaucracy remains undecided.<sup>20</sup>

A new ruling class requires a new dominant mode of production, with its own inner logic, with its own laws of motion. So far no one has been able to even sketch the laws of motion of that "new bureaucratic mode of production"—for the simple reason that it does not exist. On the other hand, it has been possible for us to portray the unique laws of motion of the transitional society between capitalism and socialism, which has been frozen by the bureaucracy at a particular intermediate phase. The empirical data of the last 30 years largely confirm the correctness of these laws of motion.<sup>21</sup>

The proponents of the notion of a "bureaucratic class" foam at the mouth

when cursing the bureaucracy. Yet often they are compelled to admit simultaneously that these "murderers, criminals, thieves, tyrants" also *in part play a progressive role*.<sup>22</sup> This is no accident: each ruling class in history has indeed played a progressive role at the inception of its rule. For revolutionary Marxists, the indubitably progressive *aspects* of the role of the Soviet *state* internally and internationally—which still exists in part—follow from its being a *worker's state*, even if a bureaucratized worker's state. The working class is and remains the single progressive social force on a world scale, which can resolve the crisis of humanity, the crisis of the 20th century. But the non-proletarian aspects of the bureaucratized worker's state, i.e. all that is bound up with the specific special interests and special nature of the bureaucracy as a social stratum (its antagonism to the working class, its appropriation of a portion of the worker's product, its suppression of workers' self organization), is thoroughly reactionary.

Now let's look at the problem from the other side. Every ruling class in history has been able to maintain its dominance over the long run only on the basis of property (in the economic sense of the word, i.e. its own power of control over the social surplus product and the means of production). The fate of the state officials in the Asiatic mode of production is very suggestive here. In the initial phases of each dynasty, the objective function of the bureaucracy was to protect the state and the peasantry from the encroachment of the landed nobility (gentry) in order to permit expanded reproduction (irrigation works, socialization of the surplus product, guarantee of adequate labor productivity in the villages, etc.). This permits—an often very generous—payment of the bureaucracy by the state, precisely through the centralized social surplus product. In this way the bureaucrat remains *dependent on the arbitrariness of the state*, never secure in his position. He cannot guarantee that his son or his nephew will become as well positioned a bureaucrat as he is himself.<sup>23</sup>

Therefore, in the second half of each dynastic cycle, an integration of the landed nobility (gentry) and the bureaucracy often took place. Bureaucrats became private property owners, first of money and treasure, and then of the land (formally this was often an "illegal" process rather like the appropriation of stocks of raw materials and finished goods in the Soviet Union). To the extent that the state bureaucrats merge with the landed nobility, the centralization of the social surplus product is undermined; the state power is weakened; the pressure on the peasantry is increased. The income of the peasantry is reduced; the productivity of agricultural labor falls; flight from the land, peasant revolts, banditism, uprisings become common. In the end, the dynasty falls. Eventually a new dynasty—often stemming from the peasantry—arises and restores the relative independence of the state and its bureaucracy as against the landed nobility.

An analogous process has been unfolding in Soviet society for more than 30 years. As long as the absolute scarcity of consumption goods persisted

there—i.e. from 1929 to 1950—securing the immediate necessities drove bureaucrats to work and to whip workers on to double and triple activity. As soon as these immediate needs have been secured, the Soviet economy is confronted with the same problem that characterized all pre-capitalist societies. *Dominant classes or strata (castes, etc.) whose privileges essentially can be reduced to private consumption have no objective long term self-perceived interest in persistent increases in production.*<sup>24</sup> Increasing production and luxury consumption therefore go hand in hand with waste, senseless luxury, individual decadence in drink, orgies, drugs, etc. (compare the behavior of the nobility of the Roman Empire, the French court nobility of the 18th century, the Ottoman nobility of the 18th-19th century, and the Czarist nobility on the eve of the Russian revolution). The parallel with growing portions of the upper strata of the Soviet bureaucracy, as with the parasitical rentier strata under monopoly capitalism, is obvious. Only the capitalist entrepreneur class, *under the spur of competition* (i.e. from private property and generalized commodity production) is *compelled* to behave fundamentally differently: to transform most of its income and wealth into capital and thereby *unceasingly to increase production*. If competition languishes, capitalism tends toward stagnation, said Marx. But competition flows from private property (once again in the economic sense of the word). Without it, it becomes meaningless.

Hence an empirically verifiable dynamic of the Soviet economy: the more Soviet economic growth slows, the more does a growing portion of the bureaucracy push for decentralized control over the means of production and the surplus product to the benefit of the "Increased rights for the Directors" and to the illegal appropriation of resources for the purposes of *private* production and *private* profit. From this results the progressive undermining of central planning, the strengthened functioning of the law of value and the tendency toward the restoration of capitalism. But parallel with this process goes the increasing split within the bureaucracy, and above all the increasing opposition of the working class.<sup>25</sup> For the workers experience in practice that private appropriation and private property can assert themselves only *at the cost of full employment* and at the price of *an ever increasing inequality*. The examples of Poland and the Soviet Union verify that their working classes bitterly fight for full employment and against social inequality.<sup>26</sup> In summary, the Soviet Union and similar societies are experiencing the beginning of a transformation of portions of the bureaucracy into a "ruling class"—not a "new bureaucratic ruling class" but the old well-known class of capitalist and private owners of the means of production. This transformation of bureaucrats into capitalists would express the process in which the law of value, instead of influencing the Soviet economy, comes to dominate it. Such a process, however, demands a generalization of commodity production, i.e. a transformation of means of production and labor power into commodities. To run full course, this process must destroy collective ownership of the means of production, institutionally



guaranteed full employment, dominant central planning and the monopoly of foreign trade. This cannot occur simply at the purely economic level. It demands an ultimate historical defeat of the Soviet working class at the social and economic level. This defeat has not yet taken place.<sup>27</sup>

The forces favoring a political anti-bureaucratic revolution (which are in the long run *stronger* than those pushing for the restoration of private property and capitalism) push Soviet society in the direction of narrowing of the operation of the law of value, strengthening collective ownership of the means of production, decisively limiting the scope of activity of bureaucracy and of social inequality, and withering away of the state. They operate towards a new and decisive progress toward socialism and world revolution.

The Russian October Revolution and the bureaucratic domination which resulted from its isolation are only explicable *from a combination* between the special and specific limitation of Russian "internal development" ("barbaric" capitalism in a half-feudal state under heavy foreign imperialist influence vis-a-vis a weak "indigenous" bourgeoisie and a relatively stronger, more concentrated and more conscious working class) and capitalist world development in the epoch of imperialism. *For this same reason*, the Russian bureaucracy cannot transform itself into a "ruling class," so long as the fate of capital has not been decided *internationally* one way or the other. For this same reason, the "same old shit" which reemerged after the victory of the revolution could *not* take on the form of a new class society, but took the special form of the bureaucratization of the transitional society between capitalism and socialism.

#### IV

Our revolutionary Marxist interpretation of the Soviet Union is not based on an "objectivistic" and even less an "economistic" interpretation of history.<sup>28</sup> In no way do we argue that the "subjective historical factor"—i.e. the politics pursued by the state and/or party leadership and its interrelation with the average class-consciousness of the "national" and "international" proletariat—can be denied or relegated to only marginal significance. Certainly the objective circumstances (the degree of development of the productive forces) set firm limits on state and party politics. Even the best revolutionary in the Soviet Union—most willing to sacrifice, theoretically most conscious, most deeply bound to the working class—could not today (not to speak of 1920, 1927, or 1933) completely abolish commodity production, money economy, the state and the bureaucracy.

But within these objective boundaries, the range of possible politics is much wider than is generally accepted. More than 20 years ago (in Chapter 16 of our *Marxist Economic Theory*) we tried to explain the theoretical basis for these

policy variations. No one has yet theoretically responded to this argument or refuted it.<sup>29</sup>

In our view, as opposed to a simplified view of social reproduction, the social product in any society with more or less continually expanding reproduction comprises not two but *three* basic sectors:

1. the consumption fund of producers (A);
2. the accumulation fund (B), i.e. the sum of additional means of production and means of consumption which the expanded reproduction allows, *as measured by use values* (in this context we are of course not taking into account exchange value relations, because we are concerned not only with generalized value production based on a capitalist mode of production); and
3. the unproductive consumption fund (C), (including unproductive accumulation, as for example the weapons industry) which contributes nothing to future expanded reproduction.

Now bureaucratic economic ideology (supported by innumerable western ideologists including pseudo- and half-Marxists) stresses that limiting the productive consumption fund is necessary to guarantee a very high level of accumulation for economic growth, which would *over the long run* secure the "steady growth" of consumption. This is allegedly the reason for the high accumulation rate of the Soviet economy (on the average, 25 percent of the national income per year).

This ideology is theoretically and practically wrong in two ways. First, it overlooks that consumption goods for direct producers represent *indirect means of production*, i.e. that every lag in their consumption behind what *they* recognize as fundamental, i.e. behind their expectations (not to speak of the material minimum required for life) causes a relative or indeed absolute decrease in labor productivity. It follows that additional investments generate decreasing rates of growth of final output: the rate of accumulation of 25 percent initially means yearly growth of 7 percent, then of 5 percent, then of 4 percent, then of 3 percent, etc.

Secondly it overlooks the fact that producers who consume less than they desire to, who consume goods of bad quality, and who are not satisfied with their work and general social living conditions (including civil freedoms) will work in an *indifferent* if not a consciously restrained fashion. They must be *compelled* to work. In a capitalist economy this is achieved by the laws of the labor market, i.e. wage fluctuations, fear of job loss, periodic mass unemployment in economic crises and depression, etc. In the Soviet Union these laws function marginally or not at all; it is *not a capitalist* society. In place of the laws of the labor market operate control and force, i.e. the despotism of the bureaucracy. These circumstances explain the hypertrophy of the controllers and police of all sorts, i.e. the *hypertrophy of the bureaucracy and the state* reflected in the enormous growth of C above (unproductive consumption fund).

Thus, B decreases considerably more than would be the case with a given increase of A. The expansion of unproductive expenditures, of the unproductive consumption fund, reduces or suppresses the growth benefits presumably obtainable from limiting producers's consumption (A).

Initial Condition	A	B	C
Leap to Forced Accumulation	A	B	C
Final Result	A	B	C

That is the entire secret of the economic policies of the bureaucracy, its initial successes and its increasingly more apparant failures. Because of these inner contradictions of bureacratic management and planning, and their economic effects, the bureaucracy increasingly brakes the expansion of the productive forces. This is a constraint on the way to socialism which must be eliminated in order to open the road again.

The actual scope of the bureaucracy as well as of commodity production in the Soviet Union is much greater than it need be. *The reciprocal action between objective inevitability and the outcome of bureaucratic politics* (i.e. bureaucratic special interests) determines Soviet reality and its dynamic. The consequences of this reciprocity can be summed up in one formula: *enormous waste*. One recent boss of the bureaucracy, Yuri Andropov, estimated that *one third of the total annual hours of labor worked are wasted*.<sup>30</sup> One cannot find a more damning judgement of the Soviet economy and the Soviet bureaucracy.

The fact that the ideologues of this bureaucracy (and their intellectual supporters and apologists in the West) deny the parasitical character of the state and the bureaucracy only proves their ever more outspoken break with Marxism. (The actual break with Marxism began 60 years ago with the acceptance of the theory on the possibility of "building socialism in one country"). Consider the otherwise rather skillful and pliable Dr. L.S. Mamut:

From a retrospective view on the reality of the state it can be seen that on a world historical scale it is developing an ever higher level of political freedom for the society and its social subjects.

. . . according to Marx, freedom can only be created with the help of (state) institutions, for which purpose they are fundamentally transformed and, what is more important, which are to be placed under the actual control of the workers of the new society. . . After the victory of the revolutionary proletariat over the bourgeoisie the freedom of society will include freedom for every worker. A collective freedom which does not have as a precondition the freedom of each associated individual is, for Marx and Engels, simply absurd. "Society cannot free itself without the freeing of each and every individual."<sup>31</sup>

Excepting the last two sentences, which stem from Marx and Engels and not from an ideologist of the Soviet bureaucracy, this excerpt is theoretically and empirically absurd. The "victory of the revolutionary proletariat over the bourgeoisie" occurred in the Soviet Union 65 years ago. Does every Soviet worker today have the freedom independently, without the prior approval of a state organ, to found a union, a political organization, or a monthly magazine; can he write and distribute without censorship a brochure or a leaflet which does not please the "officials"? If he tries it, he is immediately brought to the police stations, if not to a work camp or a psychiatric clinic, and immediately loses his job. Is that freedom of the *individual*? Does the Soviet working class—collectively and individually—control the KGB? Where? How? When? Do they "elect" even purely formally the local, regional, not to mention the central chiefs of the KGB? Where? How? When? Have they perhaps chosen Andropov or any other high dignitaries in direct, equal and free elections? Are intelligent cynics not ashamed to peddle such nonsense? Where is the "control of the Soviet workers" over the central state organs; the same state institutions which supposedly guarantee "an ever higher degree of political freedom for the society and its social subjects"? This control perhaps exists at the level of regulating the subway traffic or soup temperature in the plant cafeteria (even that is questionable!). But such "control" also exists under different progressive forms of bourgeois democracy: it is not a "higher degree of political freedom for the social subject." A sophist might reply: "political freedom" is less important than economic freedom. "Without a doubt." But are Soviet workers, perhaps, free to determine the proportions of the state economic plan, to decide on accumulation versus consumption? Are they free publically to criticize the decisions of the *Gosplan* and to propose alternative suggestions for economic, wage, social expenditure, health and education policies and campaign for these over against those of some state official? How can you enjoy economic freedoms without political ones, when the state owns the means of production and the social surplus product?

Is it consistent with Marxism to claim that even if the workers did indeed "control" the state organs, they would thereby transform the state into a means for guaranteeing "ever growing freedom"? By no means. Engels wrote:

In contrast to the old gentile organization, the state is distinguished [by an] institution of a *public force* which is no longer immediately indential with the people's own organization of themselves as an armed power. This special public force is needed because a self-acting armed organization of the people has become impossible since their cleavage into classes. . . This public force exists in every state; it consists not merely of armed men but also of material appendages, prisons and coercive institutions of all kinds, of which gentile society knew nothing. . . The officials now present them-

serve as organs of society standing *above* society. The free, willing respect accorded to the organs of the gentile constitution is not enough for them, even if they could have it. Representatives of a power which estranges them from society, they have to be given prestige by means of special decrees which invest them with a peculiar sanctity and inviolability. The lowest police officer of the civilized state [including the Soviet Union, E.M.] has more "authority" than all the organs of gentile society put together; but the mightiest prince [including the First Secretary or Chairman of the Presidium of the CPUSSR, E.M.] and the greatest statesman or general of civilization might envy the humblest of the gentile chiefs, the unforced and unquestioned respect accorded to him. For the one stands in the midst of society; the other is forced to pose as something outside and above it.<sup>32</sup>

These lines brilliantly summarize the entire Marxist theory of bureaucracy (including Soviet bureaucracy). Moreover, Engels wrote to Bebel *precisely the opposite* of what Mamut maintained on the "State as the Guarantor of Freedom."

So long as the proletariat still *uses* the state, it does not use it in the interests of freedom but in order to hold down its adversaries. And as soon as it becomes possible to speak of freedom the state as such ceases to exist.<sup>33</sup>

In *The Civil War in France*, Marx concisely specified the difference between the bourgeois state and the dictatorship of the proletariat:

The Commune was formed of the municipal councilors, chosen by universal suffrage in the various wards of the town, responsible and revocable at short terms. The majority of its members were naturally working men, or acknowledged representatives of the working class. The Commune was to be a working, not a parliamentary body, executive and legislative at the same time. *Instead of continuing to be the agent of the Central Government, the police was at once stripped of its political attributes, and turned into the responsible and at all times revocable agent of the Commune. So were the officials of all other branches of the Administration.*<sup>34</sup>

To compare these views with the reality of Soviet society and other bureaucratized worker's states is to see the distance between these states and the dictatorship of the proletariat as conceived by Marx and Engels!

In this regard, Lenin was even sharper and more radical. In *State and*

*Revolution*, referring to the Paris Commune and the dictatorship of the proletariat, he wrote,

It is still necessary to suppress the bourgeoisie and crush their resistance. . . . The organ of suppression, however, is here the majority of the population, and not a minority, as was always the case. . . . And since the majority of the people *itself* suppresses the oppressors, a "special force" for suppression is *no longer necessary!* In this sense, the (proletarian) state *begins to wither away*. Instead of the special institutions of a privileged minority (privileged officialdom, the chiefs of the standing army), the majority itself can directly fulfill all these functions, and the more functions of state power are performed by the people as a whole, the less need there is for the existence of this power. . . . This shows more clearly than anything else the *turn* from bourgeois to proletarian democracy, from the democracy of the oppressors to that of the oppressed classes, from the state as a "special force" for the suppression of a particular class to the suppression of the oppressors by the *general force* of the majority of the people.<sup>35</sup>

Lenin epitomised the difference between the bourgeois state and the proletarian dictatorship in simple terms: "The Soviet power is a new type of state, without bureaucracy, without police, without a standing army."<sup>36</sup>

Again we see how far the bureaucratized worker's state (the bureaucratically degenerated worker's state) departs from Soviet power (council power) as visualized by Marx and Lenin. Ironically, were someone to publish and distribute such quotations from Lenin in the USSR today, he would receive five to ten years of hard labor in the Gulag for the crime of . . . anti-Soviet agitation or "slander of Soviet Authority" . . . or, worse yet, internment for years in a psychiatric clinic subject to brain-washing drugs. One must in fact be crazy—just as crazy as Lenin—to imagine a Soviet state without bureaucrats, without police and without a standing army . . .

Beginning with Marx, revolutionary Marxists were always conscious of the danger that the working class, having come to power, would be oppressed anew by its own bureaucrats. In the *Grundrisse* Marx made comments which apply to the state as well as the central bank he targeted for criticism there:

In fact *either it would be a despotic rule of production and trustee of distribution*, or it would indeed be nothing more than *a board which keeps the books and accounts for a society producing in common*. The common ownership of the means of production is presupposed, etc. . . .<sup>37</sup>

In his *Civil War in France* the same Marx sketched the measures through which the Commune-State—the dictatorship of the proletariat—should distinguish itself, fundamentally on the *political level*, from the bourgeois state. In his

forward written in 1891 to Marx's pamphlet, Engels states:

From the very outset the Commune was compelled to recognize that the working class, once come to power, could not go on managing with the old state machine; *that in order not to lose again its only just conquered supremacy, this working class must, on the one hand, do away with all the old repressive machinery previously used against it itself, and, on the other hand, safeguard itself against its own deputies and other officials.* . . . Against this transformation of the state and the organs of the state from servants of society into masters of society—an inevitable transformation in all previous states—the Commune made use of two infallible means. In the first place, it filled all posts—administrative, judicial and education—by election on the basis of universal suffrage of all concerned, subject to the right of recall at any time by the same electors. And in the second place, all officials, high or low, were paid only the wages received by other workers.<sup>38</sup>

From this foundation Lenin could draw the following conclusion:

In socialist society, the "sort of parliament" consisting of workers' deputies will, of course, "establish the working regulations and supervise the management" of the "apparatus," but this apparatus will not be "bureaucratic." The workers, after winning political power, will smash the old bureaucratic apparatus, shatter it to its very foundation, and raze it to the ground; they will replace it with a new one, consisting of the very same workers and other employees, *against whose transformation into bureaucrats* the measures will at once be taken which were specified in detail by Marx and Engels

...<sup>39</sup>

Toward the end of Lenin's conscious life, he recognized bitterly that these guarantees did not work sufficiently in the Soviet Union. Therefore, he named the existing state a *worker's state with bureaucratic excrescences*, a bureaucratically deformed worker's state.<sup>40</sup> This formulation was no discovery of Trotsky or of the Fourth International; it comes from Lenin, who used it to justify strikes in the USSR. (Meanwhile, the right to strike has been suppressed in the constitution of the Soviet Union and the People's Republic of China, nor can there be any talk of the "withering way of the bureaucracy")

Here we encounter one of the greatest contradictions of the ideology of the bureaucracy, which still has not finally cut its umbilical cord with Marxism, although it is constantly getting closer to making this separation. On the one hand the Soviet bureaucracy is compelled to acknowledge that in it and other

similar social formations, there are powerful social contradictions.<sup>41</sup> After the 20th Congress of the CPUSSR and the failure of China's cultural revolution, this can hardly be denied. On the other hand, they cannot allow these contradictions to be expressed in *social* concepts, rather they must limit themselves to purely historicizing if not purely ideological or "moral" "explanations": "mistakes," "deviations," "bad behavior," "factionalism," "cliquism," "crimes," etc.<sup>42</sup>

The same is true of the "most liberal" apologists. Thus Georg Lukacs begins his commentary on the 20th Congress of the CPUSSR by harshly rejecting the personality cult as the explanation for Stalinism, and undertaking the first timid steps toward a sociological explanation.

Already my first, almost purely immediate reaction to the 20th Congress was directed beyond the person, onto the organization: on the apparatus which produced the personality cult and then hardened on it as an enduring and expansive reproduction.<sup>43</sup>

But then the slip into historical idealism appears immediately. Instead of pursuing this autonomy of the apparatus back to *social conflicts* as should be done in the tradition of historical materialism, Lukacs explains the enormous crimes of Stalin—this tyrant murdered more communists than Hitler; he cost the Soviet people some 15 million people—by Stalin's false ideas.

I haven't in any way mastered the stuff. But already these fleeting and fragmentary comments can show you that with Stalin it was *in no way a matter of single, occasional mistakes*, as many wanted to believe for a long time. Rather it was a matter of a gradually developing *mistaken system* of perceptions.<sup>44</sup>

In other words, the bureaucracy was not employed to enthrone the "personality cult" and "Stalin's wrong system of ideas" in the service of material interests which made it confront the working class as an alien social force. The stubborn narrow-minded defense of its monopoly of power is not explained by the fact that this power constitutes the basis of its material privileges. No, Stalin's "wrong ideas" (arisen in the "special situation of the Soviet Union in the 1930s") produced the complete authority and arbitrariness of the bureaucracy. Is that not a full break with historical materialism? What explains this break by so educated and intelligent a Marxist as Georg Lukacs is his desire to find some excuse for the bureaucratic dictatorship rather than to explain it scientifically (and also to justify his own decade-long capitulation to this dictatorship).

To summarize: isolated in a less developed land, the Russian socialist Revolution could not unfold in the classically foreseen path of the dictatorship



of the proletariat and the building of a classless socialist society. Insufficient productivity created generalized scarcity. Under these conditions, the low cultural level of the proletariat facilitated the gradual loss of political power into the hands of an apparatus of professional officials: the bureaucracy. The international and Russian proletariat were likewise too weak (primarily for subjective reasons for the former and primarily for objective grounds for the latter) to guarantee the progressive limitation of commodity and money economy, despite the intensifying crisis of imperialism and capitalism. This in turn conditions how the specific functioning (not the domination) of the law of value and the new division of labor based on scarcity established themselves in Soviet society: not in the form of emergence of a new ruling class, rather through the hypertrophy of a bureaucratic strata (caste) not yet freed from common ownership of the means of production and from a centrally planned economy. This bureaucratic strata enjoys growing material privileges and a political monopoly of power to guarantee them, but it must at the same time primarily restrict these privileges to the sphere of consumer goods. Therefore the growing insurmountable contradictions within Soviet society and economy. Therefore the necessity for a second (political) revolution—the only alternative to the disintegration of the planned economy and collective property in the direction of a transformation of a part of the bureaucracy into a ruling class of capitalists.

Within this framework the politics of the leadership of the CPUSSR (and analogous parties) is neither “value free” nor “predetermined.” It possesses a distinct autonomy; faced with the spread of commodity production and the expansion of the bureaucracy that leadership can either work for or against these developments. So far that leadership has significantly accelerated them and thereby sharpened the social contradictions. Far from being a weapon of the proletarian masses (of the proletariat as a class) against the bureaucracy, as Lenin hoped and intended it to be, the party has itself become transformed into an instrument of bureaucratic authority. Instead of raising the proletariat to the position of directly ruling class during the dictatorship of the proletariat<sup>45</sup>, the party increasingly transformed itself into a separate bureaucratic apparatus, largely separated from the working class. The bureaucratization of the party merged into one with the bureaucratization of the state to oppress the proletariat anew.<sup>46</sup>

The historical objective meaning of the political anti-bureaucratic revolution can only be grasped if one understands the objective function of socialist democracy, of workers council democracy. It is no way a matter of an “ideal norm.” It is a matter of *socio-economic necessity* which springs from the immanent contradictions of Soviet society. So soon as the state (dictatorship of the proletariat, broadly defined) grasps hold of the means production and centrally distributes the social surplus product, it is forced to determine this distribution without an actual articulation of the desires and needs of the people,

the working masses. *For that reason* the arbitrary-despotic character of the central allocating economy in the Soviet Union does not express the “essence” of collective property and even less the “essence” of the imperatives of economic planning. The bureaucracy may enact “reforms” to correct its arbitrariness; it may reach back to “money and market relations”: fundamentally, bureaucratic centralism remains despotic and enormously wasteful, and is condemned to remain so. There is only one alternative to arbitrariness: a system of management and planning in which the masses of workers *by themselves and democratically allocate resources and determine priorities*. Such a plan requires that the masses themselves articulate their needs (as producers, consumers, and citizens); in other words, that they become masters and mistresses of their working and living conditions; and that they gradually free themselves from the despotism both of the bureaucratic *diktat* and of that of the market (the tyranny of the the portfolio). Only in this fashion can the irresponsibility and the incompetence of the bureaucracy be overcome at once. Satisfactory resolution of the production/needs relationship means actual *democratic* centralism, i.e. the self-centralized administration of the economy and state planned and carried through by the workers themselves. *This is only possible with decisive progressive restriction* (not the immediate abolition) of *both commodity production and bureaucracy*.

#### Notes

1. Frederick Engels, *Anti-Duehring*, Moscow, Progress Publishers, 1975, pp. 334; and Engels, “Ludwig Feuerbach and the End of Classical German Philosophy”, in *Karl Marx and Frederick Engels, Selected Works*, in three volumes, Moscow, Progress Publishers, 1973 Vol. 3, p. 371. In his early, *Critique of Hegel's Theory of the State*, Marx showed the ideology of bureaucracy to be that of a *corporation* special estate, special caste which identified itself with the state and the general interests of society.

“Bureaucracy” is the “state formalism” of civil society. It is the “state’s consciousness,” the “state’s will,” the “state’s power,” as a *corporation*, hence a *particular*, *closed* society in the state. (The “universal interest” can maintain itself as a “particular” in relation to particulars only so long as the particular can maintain itself as a “universal” in relation to universals. Bureaucracy, therefore, must protect the *imaginary* universality of the particular interest, namely the corporation spirit, so as to protect the *imaginary* particularness of the universal interest, namely its own spirit. The state must be a corporation as long as the corporation wants to be a state) . . . .

The “state formalism” of bureaucracy is the “state as formalism,”

and Hegel has described it as such formalism. Since this "state formalism" constitutes itself as an actual power and becomes its own *material* content, it is obvious that "bureaucracy" is a web of *practical* illusions or the "illusion of the state." The spirit of bureaucracy is thoroughly Jesuitical and theological. The bureaucrats are the state's Jesuits and theologians. Bureaucracy is the priest's republic. . . .

The purposes of the state are changed into purposes of bureaus and vice versa. Bureaucracy is a circle no one can leave. Its hierarchy is a *hierarchy of information*. The top entrusts the lower circles with an insight into details, while the lower circles entrust the top with an insight into what is universal, and thus they mutually deceive each other.

Karl Marx, *Critique of Hegel's Philosophy of the State*, Loyd D. Easton and Kurt H. Guddat, ed. and trans., *Writings of the Young Marx on Philosophy and Society*, Garden City, Anchor, 1967, pp. 184-186.

2. Marx, *The German Ideology*, Moscow, Progress Publishers, 1976, p. 54 & 57; our underlining.
3. Leon Trotsky, *The Revolution Betrayed*, New York, Pathfinder Press, 1974, p. 55, & pp. 112-113.
4. Engels, *The Origin of the Family, Private Property and the State*, New York, International Publishers, p. 1973, p. 229.
5. *Anti-Duehring*, pp. 334-335, our underlining.
6. Rosa Luxemburg, "The Russian Revolution," in *Rosa Speaks*, New York, Pathfinder, 1970, p. 395.
7. Ibid.
8. *Anti-Duehring*, pp. 363-364 and pp. 366-367, our underlining. See Marx's well known remark in *Capital*; "Objects of utility become commodities only because they are the products of the labour of private individuals who work independently of each other." *Capital*, Vol. 1, New York, Vintage, 1977, p. 165.
9. Marx, "Critique of the Gotha Program," *Selected Works*, Vol. 3, pp. 17-18.
10. *The German Ideology*, p. 54 & p. 57, our underlining.
11. Engels describes the "major evil" of commodity production in the following way. Notice that this concerns commodity production in general, and by no means only *capitalist* commodity production.

With commodity production, production no longer for use by the producers but for exchange, the products necessarily change hands. . . . The commodities already pass not only from hand to hand; they also pass from market to market; the producers have lost control over the total production within their own spheres, . . . Products and production become subjects of chance. . . .

The more a social activity, a series of social processes, becomes too powerful for men's conscious control and grows above their heads, and the more it appears a matter of pure chance, then all the more surely within this chance the laws peculiar to it and inherent in it assert

themselves as if by natural necessity. *Such laws also govern the chances of commodity production and exchange.* To the individuals producing or exchanging, they appear as alien, at first often unrecognized, powers, whose nature must first be laboriously investigated and established. These economic laws of commodity production are modified with the various stages of this form of production; but in general the whole period of civilization is dominated by them. *And still to this day the product rules the producer; . . .*

Engels, *The Origin of the Family, Private Property and the State*, New York, International Publishers, 1973, pp. 233-234. (our underlining)

A question to the apologists of the bureaucracy: Can the domination of the product over the producer be abolished without the abolition of commodity production?

12. For example see, Fedosseiev et al., *L'enseignement marxiste-leniniste sur le socialisme et l'actualite*, Moscow, 1975, p. 97.
13. V.I. Lenin, "State and Revolution," in *V.I. Lenin, Selected Works*, in three volumes, Moscow, Progress Publishers, 1970, Vol. 2, p. 354. Note that Lenin refers to the quantity of labor and not the quantity and quality of labor.
14. "We often say that our Republic is a Socialist Republic. Does that mean that we have already realized socialism, eliminated classes and the state because the realization of socialism means the withering away of the state? Or does it mean that classes, the state, etc. will still survive under socialism? It is clear that it does not mean that." [J.V. Stalin: Letter to Kuchtysev, of December 28, 1928, in *Werke*, Volume, XI, p. 278. Our own translation from German into English.]
15. Georg Lukacs, Letter to Alberto Carocci, in *Forum, Austrian Monthly for Cultural Freedom*, 10th year, Hefte 115-116, 117, 1963. Quoted here according to Lukacs, *Schriften zur Ideologie und Politik*, Luchterhand Verlag, 1967, p. 661.
16. Trotsky, *The Third International after Lenin*, London, New Park Publications, 1974, pp. 67-68.
17. See Marx's, "Forms which precede capitalist production" in *Grundrisse*, pp. 471-514, on the role of common property as an obstacle to capitalist relations of production and even to use-value production in the villages. "Its (big industry's) first task is to pull in the countryside in its full scope into the production, not of use values, but of exchange values." The most pregnant formulations of Marx in that respect are to be found in *Capital*, Vol. 1, in *MEW*, Volume 23, pp. 378-379.
18. We cannot here analyse Soviet "wage" labor in detail. The concept "wage" encompasses two different appearances (processes) which occur together in capitalism, but not in pre- or post-capitalist societies (or at least not with the same dynamic). On the one hand it means non-direct access to life necessities; i.e. access to consumer goods only by means of a money income and limited by that. *In this sense*, the Russian worker is certainly still a wage laborer. But wage labor also means the existence of a labor market, coercion of the producers to sell their labor power on this market, and the setting of the price of the commodity labor power through supply and demand on this market prices which oscillate around a distinct objective social value of the commodity. For that the wage laborer must be cut off from not only access to subsistence but also from means of production. This still does not exist in the Soviet Union to the extent that the "right to work" is guaranteed

- not only in the constitution but in practice. Therefore, labor power is (with significant exceptions) not a commodity (or only partially so) and the wage laborer is not a wage laborer in the capitalist sense.
19. That is the fundamental theoretical mistake of Castoriadis, among others, who argue that the armaments sector has achieved complete autonomy. Cornelius Castoriadis, *Devant la Guerre I* Fayard, 1981.
  20. We ignore the unrealizable "special case" in which the Soviet Union achieves such an overpowering lead in average productivity of labor vis-a-vis international capitalism, that it could "purely economically" free itself from the law of value. In this case, however, it would have become a realm of plenty, i.e. a communist society without any objective place for a "new ruling class".
  21. Among others, see our essay, "Ten Theses on the Transitional Society" in *Probleme des Sozialismus und der Uebergangsgesellschaft*, Suhrkamp, 1972, as well as "The Laws of Motion of the Soviet Economy" in *Critique*, no. 12, 1970. We expressed this same fundamental viewpoint in the chapter devoted to the Soviet economy in *Marxist Economic Theory*, written in 1960, and first published in 1962 which, for material, was based upon the second half of the 1930's and the 1940's, as well as the years 1950-1960.
  22. See our polemic on this with Paul M. Sweezy in *Monthly Review*., and with Rudolf Bahro's, *The Alternative* London, Verso, 1981. The formula "bureaucratic state" is contentless. The state is by definition "bureaucratic", i.e. comprises an apparatus set apart from society. Everything depends upon the class nature of the state and therefore of the bureaucracy. There are despotic bureaucracies (those subordinated to the old Asiatic mode of production), slave-holder bureaucracies, feudal and semi-feudal bureaucracies (the latter in the absolute monarchy) bourgeois bureaucracies, worker bureaucracies, etc. The Soviet bureaucracy is obviously still a worker's bureaucracy, which in no way "justifies" or softens its parasitical qualities, its enormous waste of social resources, or its crimes. A "bureaucratic bureaucracy sounds rather odd, doesn't it?
  23. The parallel between the complicated, state-hierarchical and to the utmost degree highly formalized system of state posts in classical China on the one hand and the *Nomenklatura* in the Soviet bureaucracy on the other (both formally resting on examinations, here examinations in "Marxism-Leninism") leaps forth and is sociologically especially relevant. See the quote from Marx in footnote 1.
  24. \*. . . in part because in any early mode of production, the major owner of the surplus product. . . the slave holder, the feudal landed lord, the state, for example, the oriental despot represents the leisurely rich. Marx, *Capital*, Volume 3, *MEW*, Vol. 25, p. 343.
  25. All of those strata of the bureaucracy—not only the so called "political" bureaucracy—which have no immediate relations with the means of production and which can only indirectly "command" them through orders, are much less inclined to relinquish the centrally allocating economy, the imperative of the plan, and the collective ownership of the means of production. This does not in any way mean, however, that they are any less corrupt or any less interested in private enrichment including private accumulation of gold, foreign currency, jewelry, art works, bank accounts in Switzerland, etc. than the technocratic and the factory-administrative strata of the bureaucracy.

26. Diverse observers of Soviet everyday life, above all the important philosopher and satirist Alexander Zinoviev, (see Alexander Zinoviev, *Le Communisme comme realite*, L'Age d'Homme, Paris, 1981) but also, unfortunately, the oppositional revolutionary socialist Ticktin, maintain that the stability of the Soviet Union rests on a tacit agreement between the bureaucracy and the workers. (Tikhtin, *Critique*, no. 12, pp. 132-135, & p. 129). This thesis' weakness is shown by the Polish events since the summer of 1980, and the bitter struggle of the Polish workers for more social and economic equality. Ultimately this is an *apologetic* thesis for the "really existing" conditions, just like the parallel thesis on the supposed "consensus" between capitalists and the "silent majority" in the West. The "rational kernel" of this thesis derives from the fact that in "private" the black and the gray market sectors the wages of the workers can be six or seven times higher than in the state sector. But this is only possible in the Soviet Union precisely because these sectors are marginal and do not carry a decisive weight in industry (laughable exaggerations of this make the rounds in the West). There is no material basis in the USSR for the *average* real wage (real consumption) being six times higher than it is today. Compare here Marx's observations on the role of slave production within capitalism.

It is not contradictory that within the bourgeois production system slavery is possible at one place. This is only possible, however, because it does not exist other places, and appears as an anomaly against the bourgeois system itself. *Grundrisse*, p. 368, German edition.

27. Bettelheim *Class Struggles in the Soviet Union* details the worker's struggles which took place in the Soviet Union in the 1920's and 1930's. Nowhere, however, does he prove that this struggle was concluded with the resurrection of a *labor market*, i.e. with the transformation of the Soviet proletariat into "free wage laborers", i.e. with an *economic defeat*. What he proves is severe *political and social* defeat of the Soviet working class. That, however, is a thesis which the Soviet Left Opposition—which Bettelheim persistently ignores—later the Trotskyist movement, has defended for more than 45 years. This defeat was the Soviet Thermidor. Like the Thermidor of the French Revolution, however, it maintained the economic foundation of the society which had been created in the revolution, instead of destroying it.
28. It takes a large dose of cynicism for extreme Maoists to accuse the Chinese proletariat and certain factions of the Chinese bureaucracy after the "Chinese cultural revolution", with "economism because they demanded a modest increase in wages. That proletariat had experienced stagnating money wages and decreasing real wages for more than a decade. At the same time the ruling strata of the bureaucracy—including the Mao fraction in its restrictive sense—lived in abundance, with enormous privileges, with swimming pools, private movies, private rose gardens and legions of private servants in their luxury villas. This cynicism was not only shared by the ruling faction in the People's Republic, but also by the leading pro-Maoist intellectuals outside of China . . . a cynicism "excused" only by the crassest ignorance of the real circumstances. But for intellectuals that is *no* excuse, above all when this same blue-eyed ignorance is presented twice on the same day; first for the Soviet reality and then for the Chinese one.

29. Ernst Mandel, *Marxist Economic Theory*, Modern Reader, New York and London, 1968 Vol. 2, pp. 605-653.
30. Also see A. Bagdarassow, S. Perwuchin, "Labor Productivity, Reserves for Growth," *Kommunist*, Nr. 2, 1983. "A major cause for the bad quantitative and qualitative statistics of economic growth derives from the fact that in place of a real savings of labor on a non-equivalent basis, an exchange of living for dead objectified labor ensues, whereby every new step toward the increase of labor productivity based on increasing outlay on objectified labor is not compensated by a savings of the expenditure of living labor."
31. L. S. Manumt, *Social Philosophical Aspects of the Marxist Doctrine of the State*, in *Voprossi Filosofii*, 1982, Nr. 2. The Marx quote from *MEW*, Bd.20, p. 273.
32. *The Origin of the Family*, pp. 229-230. Marx had precisely the same view.

The executive power with its enormous bureaucratic and military organization, with its ingenious state machinery, embracing wide strata, with a host of officials numbering half a million, besides an army of another half million, this appalling parasitic body, which enmeshes the body of French society like a net and chokes all its pores, sprang up in the days of the absolute monarchy. . . . The first French Revolution, with its task of breaking all separate local, territorial, urban and provincial powers in order to create the civil unity of the nation, was bound to develop what the absolute monarchy had begun: centralization, but at the same time the extent, the attributes and the agents of governmental power. Napoleon perfected this state machinery.

Marx, "The Eighteenth Brumaire of Louis Bonaparte," *Selected Works*, Vol. 1, p. 477.

33. Letter from Engels to Bebel in Zwickau, from London, March 18-28, 1875, *Marx and Engels Selected Correspondence*, Moscow, Progress Publishers, 1975, pp. 275-276; also in *Selected Works*, Vol. 3, p. 35.
34. Marx, "The Civil War in France," *Selected Works*, Vol. 2, p. 220.
35. Lenin, "State and Revolution," *Selected Works*, Vol. 2, p. 317. Here it says specifically, the bourgeoisie. Are the 10 million members of the Polish *Solidarnosc*, bourgeois? Do wage laborers become bourgeois although they own no capital, as soon as they put forth ideas that are uncomfortable to the bureaucracy? Indeed is the majority of the working class of a given country bourgeois when they reject the domination of the bureaucracy?
36. Lenin, *Saemtliche Werke*, 1 Ausgabe, Vol. XXII, p. 390.
37. *Grundrisse*, pp. 155-156, our underlining.
38. Marx, "The Civil War in France," *Selected Works*, Vol. 2, pp. 187-188, our underlining. Experience has shown that without political pluralism, i.e. without an actual (and not only a formal) majority party system, real general elections and the real possibility of electing and removing people from even the highest posts are impossible in an already consolidated worker's state. See the 11th Congress of the 4th International, on the accepted theses on the "Dictatorship of the proletariat and socialist democracy".
39. Lenin, "State and Revolution," in *Selected Works*, Vol. 2, p. 267; our underlining.

40. Lenin, *Werke*, Vol. 32, p. 7. Alexander Zimine, *Le Stalinisme et son "socialisme reel"*, Paris, La Breche, 1982 presents a devastating analysis of the revisionist thesis of a "socialism" with the continued existence of various social classes.
41. In this regard see the article of W.S. Semjonow, the chief editor of the Soviet journal, *Voprossi Filosofii*, "The Problem of Contradictions Under Socialism," in No. 7, 1982, and A. Butenko "Contradictions in the Development of Socialism as a Social Order," No. 10, 1982.
42. In light of the Polish events, Butenko upbraids the "deformations of the system since 1948-1949," i.e., for more than 30 years, the "deformations of socialism," the "insufficient development of democracy within the party," the "mistakes," the "straying from the principles of socialism," etc. It must be underscored that he is compelled to take the first—even if vague—step in the direction of a *materialist* analysis. Thus he writes that a deformation of socialism could exist, for example, in that "common ownership of the means of production . . . could be replaced . . . by bureaucratic state property standing apart from the workers." Furthermore, "the mechanisms of power in the interests of the workers and by the workers themselves," [our underlining] could be replaced by a "mechanism of power in the name of the workers but not in their interests." Is that true only for the People's Republic of Poland and not for the USSR? Should we answer, *de te fabula natura*? And how does one respond to the following conclusion?

The analysis of these contradictions is a task laden with responsibility [indeed, indeed, EM] which touches on the interests of the most diverse groups [which "groups"? Why this gentle, soothing indulgent form of speech? EM] and from which each imprecise remark [only each *im*-precision? perhaps every precise remark? EM] can be used to the harm of society [how is it that "group" interests are suddenly identified with social interests, when they mutually contradict each other? EM] as well as to the disadvantage of the researcher in question [here lies the real problem! Who can use this? From the proletariat acting as the ruling class? or from the plenipotentiaries of the party, state, and economic bureaucracy? EM] (our underlining)

Butenko goes so far as to put forth the conclusion. . .

these abnormal appearances or deformations of socialism, arise each time on the basis of a concrete historical basis, which as a rule are parasitical eruptions on the real process of socialist growth, and which are maintained by distinct groups in their own interest. . . . [our underlining]

What are these secretive "distinct groups"? Why aren't they named? Aren't they precisely the bureaucracy?

43. Lukacs' letter to Carocci, p. 658.
44. Ibid, p. 674; our underlining.
45. On the dictatorship of the proletariat as the constitution of the proletariat as a whole and not of a vanguard party to the status of rulers, see *The Communist Manifesto*.



46. That the whole problematic is tightly bound up with that of Thermidor is obvious. Less well known is that already in 1921, Lenin (i.e. one year before Trotsky) had posed the question of a possible Thermidor in the Soviet Union in his notes on the 10th Party Conference 5th Russian edition of the *Complete Works, Sochineniya* XLIII, p. 403. "Thermidor? Sensibly one must say: *it is possible*, isn't it? Will it come? We will see."

## State Power and Capitalist Democracy

Ralph Miliband

### I

The purpose of this essay is to extend an argument which I presented in an earlier article concerning the relationship between the state and dominant economic interests in advanced capitalist societies.<sup>1</sup> There I suggested that the traditional Marxist view of the subject was that policies and actions of the state were mainly (or even wholly) impelled by forces external to it. Such forces comprise either a ruling or dominant class, so designated because of its ownership and control of the main means of economic activity, or the impersonal constraints generated by the capitalist mode of production. These forces are taken to compel the state, whatever may be the dispositions of those who are in charge of it, to serve the requirements of capital. Nor obviously, are the personal forms of constraint incompatible with the impersonal ones: on the contrary, the two complement each other. This view of the dynamic of state action, I also suggested, greatly understated the degree of autonomy which the state in these societies enjoyed. Moreover, the notion of the "relative autonomy of the state," which was intended to qualify the state's subordination to external capitalist forces, still left it far too strictly subordinated to them.

The state is of course an ensemble of institutions: the executive power (presidents, prime ministers and their Cabinet colleagues and other immediate advisers); the top layers of the administration (in departments of state and also beyond ministerial departments, for instance central banking institutions or public enterprises); military and police chiefs; the judiciary; the legislative branch; and various forms and levels of local and regional government. However, it is the first of these—the executive power—which is of the greatest immediate relevance here, since it is presidents, prime ministers, and their colleagues and advisors who are ultimately responsible for making policy decisions and initiating actions which stem from these decisions. In this sense, the autonomy of the state refers primarily to the autonomy of the executive power or government; and it is with the executive power of the state that I shall be mainly concerned here.

The problem, which the notion of "relative autonomy" points to but does

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Earlier versions of this essay were presented in 1983 to seminars at York University, Toronto, and the New School for Social Research, New York, and to a Marx Centenary Colloquium at the Vrije Universiteit, Brussels. I derived much benefit from the discussion which followed the presentations, and I am grateful to the participants.

not resolve, is to produce a view of the state in advanced capitalist societies which combines accounts of two sets of factors: the external forces and constraints to which the state is clearly subjected and also the crucial role which the state plays in these societies, and which it plays, in regard to vital issues, quite autonomously.<sup>2</sup>

The answer to the problem which I proposed in my article was the notion of a *partnership* between the state on the one hand, and dominant capitalist forces on the other. I suggested that this partnership should be viewed as involving "two different, separate forces, linked to each other by many threads, yet having each its own separate sphere of concern."<sup>3</sup> The terms of that partnership, I also noted, "are not fixed but constantly shifting, and affected by many different circumstances, and notably by the state of class struggle. It is not at any rate a partnership in which the state may be taken necessarily to be the junior partner."<sup>4</sup>

The burden of the present essay is that this last formulation is much too weak; and that, in so far as there exists a "partnership" between the state and dominant capitalist forces, the state should be seen, in advanced capitalist countries, as by far the more senior of partners, and able, more often than not, to use its power without any reference to forces external to it.

## II

A central part of Marxist political sociology has been the notion that the capitalist state is primarily (and even exclusively) moved by capitalist forces, and that the defense of these forces is virtually its only purpose, and certainly its most important one. This notion may be attributed to a deep-seated "economistic" bias in Marxist thought, which was particularly marked in the period of the Second International. The bias undoubtedly owed much to the extraordinary development of capitalism in that period—the period of the Second Industrial Revolution—and to the emergence of what were then industrial, financial and commercial giants. In light of this capitalist development, it is not very surprising that governments and states should have been thought to be mere pawns in the hands of captains of industry, financial tycoons and "robber barons."

This "economistic" perspective has persisted well into the twentieth century, and was given an appearance of plausibility by the further development of capitalism. In fact, it received even more pronounced emphasis with the notion of "state monopoly capitalism," which has long been the official Soviet view of the state in advanced capitalist societies, and which has also been adopted by western Communist parties. In this perspective, the capitalist state and monopoly capital are not only inextricably intertwined, which is a reasonable enough view, but form an ensemble in which the state is hardly more

than the pliant tool of monopoly capital.

This seems to me to be a profound misreading of the true relationship of the state to capitalist forces in advanced capitalist countries in the present epoch. For it fails to take account of the degree to which the state itself has grown, from the relatively ramshackle and non-interventionist state of the nineteenth century into the highly organized and pervasively interventionist one of the twentieth. Nor is the point simply that the power and scope of the state have grown tremendously in the twentieth century, but also that the state plays its role with a very high degree of independence from *all* social forces in society, often amounting to absolute independence.

Moreover, the "economistic" perspective also fails to take into account the extent to which capitalist democracy, including as it does political competition and overt pressure from below, has itself helped to shift the balance of power towards the state. The state imperatively *needs* more elbow room if it is to contain effectively pressure from below; and power holders who depend on electoral legitimation *want* more elbow room in order to enhance their chances of holding on to office.

Marx and Engels made full allowance for the independence of the state under capitalism. However, they viewed such independence mainly as the result of what Engels called "exceptional circumstances," notably when no class was able to assert its domination, and as assuming then more or less pronounced is by no means only under properly authoritarian forms that the state achieves a high degree of emancipation from external pressures. It is also in the "normal" circumstances of capitalist democracy that it assumes, in relation to a vast array of policy decisions, some of them of vital importance, the kind of independence which Marx and Engels attributed to the authoritarian state.

I will presently say more about this pervasive and independent role of the state in the present epoch, but I must note here that, in thus stressing its independence, I do not in the least seek to belittle the influence and power which capital exercises in society and vis-a-vis the state. Capitalist forces have vast means at their disposal whereby they can hope to shape public opinion and affect the fortunes of candidates and parties in elections. Nowhere is this more true than in the United States, where business deploys immense resources for what is in effect ideological and political indoctrination and pressure, and where few candidates in elections can hope to get very far without strong business support. Business is by far the most powerful pressure group in all capitalist countries, compared to which all other "interests," and notably labor, must be reckoned to be weak. Moreover, capital controls strategic means of industrial, financial and commercial activity. No government can therefore ignore the power which this confers upon the controllers and the degree to which that power can be used to embarrass a government and make its life more difficult.

All the same, the weight which capital has on public affairs, however great, does not amount to mastery over the government or the state. A difference has to be made between influence and power which are brought to bear on the political process on the one hand, and on the state on the other. Obviously, there is a link: the influence and power which are wielded by business in the political process impinge upon the state itself, and are in any case directly deployed in regard to the state itself. Nevertheless, there is a difference: a candidate to the presidency of the United States, for instance, depends upon business support a lot more than does someone who *is* President of the United States, and a President of the United States has himself vast resources of power which a candidate to the Presidency does not have. More generally, the executive power of the state speaks with an authority—or at least can do so—that no “interest” in society can begin to match. Governments armed with the legitimacy conferred upon them by electoral procedures deemed “democratic” (whether they are or not), and claiming to speak in the name of the majority (whether they do or not) cannot reasonably be thought to be helpless in the face of capitalist opposition.

There are of course occasions when any government is forced to act in ways which it finds very disagreeable, and capital is one of the forces which may compel it to make highly unwelcome decisions. But it is not usually the case that the executive power in advanced capitalist countries has no option but to adopt a course to which it is strongly opposed on matters of fundamental importance. The possible alternatives open to governments vary from country to country and according to particular circumstances; but governments do almost always have some choice of alternatives.

This means that, if the state acts in ways which are congruent with the interests and purposes of capital, it is not because it is driven out of dire compulsion to do so, but *because it wants to do so*. There are strong reasons for this. One of them is precisely the influence and power of capital. It is much easier to go along with strong capitalist interests, and to conciliate them, than to oppose them, most of all on matters of great importance. Another reason is that, in any case, most of the people who have traditionally occupied positions of power in government and other parts of the state have viewed the interests of capital as being broadly congruent with the interests of what they conceived to be the “national interest.” They might oppose the policies and actions of this or that firm, and find that its behavior represented the “unacceptable face of capitalism.” But the face of capitalism has generally been perfectly acceptable to power holders in these societies; and the point is scarcely less valid for social democratic governments than for conservative ones. These ideological dispositions provide a firm basis for the “partnership” I have referred to.

However, it is governments which ultimately decide what policies and actions the interests of capital and the “national interest” require. There are, let it be said again, important and even vital policy choices to be made; and while governments do take into very careful account the opinions expressed by the

representatives of capital (who may not in any case speak with one voice), and must include in their calculations the actions which capital may undertake or threaten to undertake, it is they who will, from a range of alternatives, choose what policy to adopt; and the range is wider than the traditional Marxist perspective has generally allowed for.

On this view, it seems much more useful to take the state as being concerned with the defense of the given social order rather than simply with the defense of capital. Of course, the given social order constitutes a particular structure of exploitation and domination, a particular order of property and production relations, of privilege and power; and capital is at its very center. The defense of the social order is therefore also, and even pre-eminently, the defense of capital. Nevertheless, the notion of the state as the defender of the social order makes possible a more accurate perception of the state's place in capitalist society than is afforded by the narrow “economistic” view of the state as the defender of capital. For the larger view, while not losing sight for a moment of the fact that the social order which the state defends *is* an order of exploitation and domination, also indicates that the state's purposes and concerns far transcend the immediate—or even the longer term—interests of capital, and encompass whatever those in charge of state power deem to be necessary for the defense and stability of the social order. It also indicates that the people in charge of the state do not necessarily want to use the state in order to help capital, but want to help capital because they believe this to be required in order to strengthen the state, a purpose which may stem from many different philosophical, political, religious, moral and other concerns.

The notion of the state as the defender of the given social order—and as its more or less independent defender—is perhaps best supported by way of a review, however brief, of the main areas in which it is involved.

To begin with, the state intervenes in crucially important ways in the economic life of capitalist society. However much conservative governments may proclaim their attachment to “free enterprise” and the unfettered operation of the market, they are nevertheless irremediably involved in the national and international economy. Much of what the state does in this area is done in close consultation with capitalist interests; but even here, where these interests are most closely involved, the decisions which the state takes in regard to economic life are taken by presidents, prime ministers and their immediate colleagues and advisers as *they* ultimately think fit.

Furthermore, there is a great deal which the state does by way of the regulation of business which business has traditionally found irksome, but which has been imposed upon it precisely because the state, as the defender of the social order, could not allow business to disregard altogether the social costs of its pursuit of profit. These regulatory activities of the state may be carried out halfheartedly and ineffectively; but they *are* performed, notwithstanding the opposition they encounter on the part of the interests concerned.

The same considerations apply even more strongly to a second area in which the state intervenes, namely the social provisions subsumed under the rubric "welfare state." Here too, governments, whether reluctantly or not, cannot avoid shouldering major responsibilities for the provision of a wide range of social services. The question in this realm is not "whether" but "how much?", or, perhaps more accurately, "how little?" Much if not most that has been achieved in terms of welfare rights and social protection may be attributed to direct or indirect pressure from below. It is safe to assume that the mass of legislation which regulates the labor process, and most of the social provisions which make up the "welfare state," would not have come into being without pressure from below and the fears of the consequences in terms of social instability and conflict that might be produced by the refusal of regulation and reform. But it is the state, usually in the face of strong opposition from capitalist interests, which turned expectations and demands into measures with the force of law.

It may well be said—in fact, it needs to be stressed—that the measures of regulation and reform which were achieved were never of such a nature as to pose a major challenge to capitalist interests; that these interests were always in a position to put a brake upon the scope and impact of the reforms which they were unable to prevent altogether; and that the state was usually the willing partner or accomplice in these limiting endeavours. This is undoubtedly very important in the assessment of the meaning and significance of reform in a capitalist society. Nor is it to be ignored that reform has helped to contain conflict and to legitimate capitalist democracy. But none of this can be taken to suggest that, because the reforms that were introduced did not actually destroy the existing structure of power, they were therefore of no consequence, mere matters of detail in the ways in which exploitation and domination are organized and conducted. Such a view is unwarranted. The reforms in question did not destroy capitalism, and were never intended to do so: but their introduction and cumulative effect did make a considerable difference in the ways in which exploitation and domination were experienced in these societies, and in the capacity of the subordinate classes to resist the conditions of their subordination or to challenge subordination itself. This is precisely why reforms have always been opposed, and often opposed fiercely, by all conservative forces in capitalist society. It is also why the state itself has always been halfhearted in its regulating and reforming endeavours. But it did nevertheless play an indispensable role in the implementation of the measures in question. It could not have played that role if it had not had a very considerable degree of independence from dominant economic forces and been thus able to act as the guardian of the true interests of these forces—a task made absolutely essential by the "structural" and all but insurmountable short-sightedness of dominant classes.

Thirdly, the state is ever more thoroughly involved in the "engineering of

consent," the manipulation of opinion, the business of propaganda and indoctrination. The struggle for the "hearts and minds" of the subordinate populations of capitalist societies was once a task largely undertaken by dominant classes in control of what Marx called the "mental means of production" as well as the material ones. But that struggle is now also waged, with great intensity, by the state itself, so to speak on its own account, and with all the formidable resources it has for the dissemination of propaganda, mis-information, and plain lies.

Fourthly, the state is ever more deeply and comprehensively engaged in the surveillance and "technological control" of its population, in the business of repression, in which it plays a unique role, and in the discouragement of dissent and the harassment of dissenters. Some of the things it does in this area are of direct and specific help to capitalist employers, e.g. the harassment and repression of strikers; but most of its policing and repressive activities are intended to serve the larger purpose of defending the social order against all those who are taken to be its internal enemies. Here too, what the state does is done largely independently of any pressure external to it, out of a dynamic generated in the state itself. The amount and forms of repression which the state uses, matters of very considerable importance with very large implications for the whole of society, are also decided inside the state, not outside it.

Finally for present purposes, there is the whole area of external affairs, to which may be linked defense, and in which the state alone, or rather the executive power of the state, exercises an exclusive prerogative of ultimate decision-making. Of course, the state is greatly constrained in its external dealings by a wide variety of internal and external limitations. But when all these have duly been taken into account, it is still the case that there is much that the state can choose to do, or not to do, quite independently of capitalist or any other forces in society. Its area of choice is greater or smaller depending on the country's power and resources: it is obviously much greater for the United States than for any other advanced capitalist country. But it is not negligible for any of them. Thus, to take one recent example among many, it was possible for a British Government, quite autonomously, and without any reference to anyone outside the state itself, to embark on the Falklands enterprise. In so doing, it could no doubt count on a large measure of support in the House of Commons (as it turned out, all but unanimous support) and in the country at large. But that support was obtained *after* the decision to act had been taken. An earlier example is that of the Suez expedition in 1956. That enterprise foundered because of internal and external (decisively American) opposition. However, the significant point here is not the failure of the expedition but the fact that it was initiated by the British Government without reference to anybody outside the state. The extreme example of such decision and actions—fortunately still only potential—would be the decision of the President of the United States to start a nuclear war which would devastate a large



part of the planet: such a decision would be taken by the President, without reference to anybody outside a small circle of advisors. There could be no more dramatic example of the meaning of the autonomy of the state.<sup>6</sup>

It would not be difficult to lengthen this enumeration of the areas of activity in which the state is engaged as the defender of the social order: but what has been said about it may suffice to recall how pervasive its involvement is, and how much is done by the state "on its own," for whatever purposes those who are in charge of it deem desirable. This independence of the capitalist-democratic state is one of its most notable and important features; and it is a feature which is becoming more marked with every decade that passes. If the control of the state by society is taken to be an essential part of a democratic regime, it is fair to say that the regimes of advanced capitalism are anything but democratic. True, the state in these regimes does not have the degree of freedom from control which is enjoyed by the authoritarian state. Legislative constraints, judicial review, electoral and popular pressures, the influence of the press and of a multitude of diverse pressure groups, associations, interests and lobbies all serve to some degree to place obstacles on the capacity of the state to act as it wills. But there is an ever-more pronounced tendency for the executive power in these regimes to seek emancipation from all such constraints and to curb all power except its own; and this is particularly true in the area of "law and order" and defense and external policy. Much of the relationship between the state and society in these regimes thus turns into a permanent struggle of the former for freedom from the latter.

The main reason for the inflation of state power within the constitutional shell of capitalist democracy is not, *pace* Max Weber, the irresistible march of bureaucracy; or the hunger for ever more power from people who already have a lot of it (though this is not to be discounted); or the ever greater sophistication of the technology of social control. All such explanations miss the essence of the matter, namely that the social order which the state is seeking to defend *requires* its intervention ever more imperatively, if the prevailing patterns of exploitation and domination which are constitutive of that social order are to be preserved, given conditions of permanent economic, social, political, cultural and moral crisis. The state has always played an essential part in the defense of the social order: its intervention is now more essential than ever. But it is the more effectively undertaken the freer the state is from the constraints which a capitalist-democratic regime imposes upon it.

There is one factor which has enormously accelerated the tendency towards the "autonomization" of state power in these regimes: this is the permanent anti-revolutionary purpose, conveniently legitimated by the bogey of the threat of Soviet aggression, which has been at the core of the defense and external policies of advanced capitalism. These policies aggravate the difficulties which these regimes confront, and which themselves make for the "autonomization" of executive power. They also require a strenuous and sustained mobilization of

the population and the greatest possible marginalization of dissent from the left; and they involve the extension of police powers in the name of "national security." Only the state can perform the tasks required by dedication to anti-revolutionary purposes.<sup>7</sup> This entails not only the inflation of state power, but its emancipation, in crucial areas of policy, from constraints which are proclaimed to be dangerously detrimental to the "national interest."

### III

Given the power which belongs to the governments of capitalist-democratic regimes, and the degree of freedom which they have in wielding it, the obvious question which arises is how far this power could be used to subvert rather than support the given social order. If governments can act without reference to capitalist forces, how far is it possible for these governments to go in acting against them? How feasible is it for the government of an advanced capitalist country to act in ways which must entail the dissolution of the state's partnership with capitalist forces, and to forge a new partnership with the hitherto subordinate class or classes, for the purpose of transforming the social order in socialist directions? What, in other words, are the limits of radical change in capitalist-democratic regimes?<sup>8</sup>

There is a remarkable dearth of historical experience in regard to such questions. Of course, there is a vast amount of evidence in the twentieth century of counter-revolutionary movements directed against reforming governments (and also against governments that were not particularly reform-oriented). But this evidence, though relevant, concerns countries and situations in which capitalist democracy was poorly implanted, as for instance in Italy, Germany, Spain and Eastern Europe in the inter-war years. There is also Chile, which was a capitalist democracy, with a strong tradition of constitutionalism; and what happened there between 1970 and 1973, and particularly in 1973, is directly relevant to the question, and needs to be carefully remembered and pondered. But any such experience has its own specificities, and can never therefore be taken to be finally conclusive for what would happen in other settings.

Historical experience is scanty despite the long history of reform and reforming governments in the capitalist-democratic regimes of advanced capitalism. Since 1945, a succession of such governments, of social-democratic character and inspiration, have come to office in one or other advanced capitalist country. Social-democratic governments were a rare occurrence in the inter-war years, save in Scandinavia: they became a common experience in the post-war decades. But while these governments generally came to office with very large programs of social renewal, they very carefully confined themselves in office to measures of reform which, though often substantial, were clearly and even explicitly designed not to bring about a wholesale transformation of

the structure of power, property and privilege in the society in question. These governments did want reform; but they also wanted to defend the social order, and indeed wanted reform not least because this seemed to them to be the best guarantee of social stability. As a result, the opposition of conservative forces to these reforming governments, however determined and often fierce, was also kept within fairly narrow bounds. There was no need for these forces to consider seriously actions which would strain the "normal" workings of the political and constitutional system to a dangerous point.

Furthermore, these reforming governments always had a critical point of contact and accord with the conservative forces which were opposed to them—in regard to defense and foreign policy. Social-democratic governments naturally differed from their conservative opponents about specific items of policy in these fields; but they were wholeheartedly agreed on the absolute necessity for their countries to be part of the NATO alliance under the leadership of the United States. Social-democratic governments had no difficulty at all in aligning themselves with the United States in the waging of the anti-revolutionary crusade to which I referred earlier, even though they might object to this or that move by the American government. Consensus in this area greatly, even decisively, eased the relationship of reforming governments and conservative oppositions.

In short, there has been no occasion in the history of well-implanted capitalist democracies (save for Chile) when the executive power of the state has been used to push to their furthest possible limits the opportunities for radical change which the possession of office afforded them (and even Chile is doubtful in this respect, given the relative modesty of the program of reforms which Salvador Allende was seeking to implement). All social-democratic governments have retreated or given up power long before they reached these outer limits: there was always much more that they could have done, had they chosen to do so. The main reason for their choosing not to was not the strength of the opposition which they encountered, but rather that further advances would have required them to adopt policies and measures likely to aggravate conflict, an option from which their whole cast of thought led them to recoil.

For their part, many Marxists, out of a proper concern to combat "reformist" illusions, have tended to argue that, even if a government intent upon radical change was allowed to take office, it would very soon find obstacles on its path which it could not hope to negotiate within the constitutional and political framework of capitalist democracy.

Two different points may be made about this view. The first is that it would undoubtedly be foolish and reckless to underestimate the opposition which a government intent on the transformation of the structure of property and power must encounter. This opposition would arise from within the state itself as well as in society. It would include a vast array of forces, of which capitalist interests would be one, and some of which would proclaim their "non-political" nature.

And opposition from within the state and the country would certainly receive strong encouragement and support from abroad.<sup>9</sup>

The question, however, is not whether a government determined upon radical courses must expect strong conservative opposition: that may be taken for granted. The real question is how *effective* this opposition would be. An answer to it must depend on the specific circumstances in which the struggle occurs. But—and this is the second point—the stress on the strength of the opposition, however necessary and reasonable it may be, runs the risk of blurring and even occluding the fact that a duly elected government in a capitalist-democratic regime *also* has a great deal of strength at its disposal, provided it is backed by a legislative majority (which Allende did not have) and that it enjoys a large measure of solid, organized and reasonably united support in the country.

These may seem to be rather onerous conditions in the political climate of the present period, when the left in advanced capitalist countries has suffered much demoralization and many defeats. Nor in any case is it to be denied that they *are* onerous conditions, in so far as they demand not only electoral support but the "internalization" by large segments of the population of that new "common sense" of which Gramsci spoke. On a longer term view, however, and in the light of the shortcomings and derelictions of advanced capitalism, these conditions, apart from being inescapable, are not unrealistic. But there is one further condition whose fulfillment is essential if the government is to have any chance of coping effectively with the problems and obstacles it would confront, namely that it should itself be determined to proceed with the implementation of its program, and that it should accept the "radicalization" which that implementation must inevitably entail. This is a large condition: its realization largely depends on the nature of the movement from which the government is issued, on its political maturity, its coherence, its combination of principle and flexibility. The question, in other words, is not one of "good leaders," but of the quality of the movement they lead, and of the manner in which leaders and movement relate to each other.

The paradox, however, is that the power which is at the disposal of a government determined on radical change and adequately supported in the country, cannot from a socialist point of view be a matter of unalloyed satisfaction. On the one hand, this power is indispensable, not only to achieve and safeguard the desired transformations in the social order, but also to fulfill the many administrative and arbitrating functions which must fall upon the state in a "post-capitalist" society. On the other hand, the power of the state must (or should) evoke intense suspicion in socialist eyes—very much, it may be added, in the tradition of Marx himself if not in that of many of his disciples. One of the main items in the indictment which socialists direct at capitalism today is that it must rely ever more heavily upon an inflated statism, which assumes more and more authoritarian forms. The socialist purpose is not to substitute one statism

for another, but to create the conditions in which the state is assigned its necessary but subordinate sphere by a social order securely in command of it. How to bring this about comes very high on the list of problems which it is the task of socialism to solve.

### Notes

1. "State Power and Class Interests," *New Left Review*, No. 138, March-April 1983.
2. My repeated references to "advanced capitalist societies" are intended to stress the fact that it is only these societies, and their capitalist-democratic regimes, that I deal with here. The relationship of the state to capitalist and other social forces in "less developed" capitalist countries presents a different set of problems, and requires separate treatment. So of course does the relationship of the state to society in Soviet-type regimes.
3. "State Power and Class Interests," p. 65.
4. *Ibid.*, p. 65.
5. E.g., Marx: "The Empire . . . was the only form of government possible at a time when the bourgeoisie had already lost, and the working class had not yet acquired, the faculty of ruling the nation." [Karl Marx, *The Civil War in France*, in *Political Writings*, Volume 3, *The First International and After*, Harmondsworth: Penguin Books, 1974, p. 208. Also Engels: "By way of exception, however, periods occur in which the warring classes balance each other so nearly that the state power, as ostensible mediator, acquires for the moment a certain degree of independence of both." [Frederick Engels, *The Origin of the Family, Private Property and the State*, in Marx and Engels, *Selected Works*, Moscow: Foreign Languages Publishing House, 1949, Volume II, p. 290. For a useful exposition of the place of autonomy in Marx and Engels' work, see H. Draper, *Karl Marx's Theory of Revolution*, Volume I, *State and Bureaucracy*, New York: Monthly Review Press, 1977, Chapters XI, and ff.
6. However, the adoption of "launch on warning" systems, which entail the initiation of nuclear war by automatic computer responses to given warning signals, would constitute an even further stage in the autonomy of the state, in so far as the decision to destroy a large part of the planet and its inhabitants would be taken independently of any human agency—by grace of machines invested with all the power of the state.
7. I use the term "anti-revolutionary" rather than "counter-revolutionary" because the latter term denotes the intention to destroy existing regimes. This is certainly part of "western" policy wherever possible. But in so far as the intention is more commonly to prevent revolutionary movements from coming to power, and generally to contain the left, "anti-revolutionary," except in the case of policies and actions directed against revolutionary regimes, seems the more appropriate term. For a survey of the ways in which anti-communism has been used by capitalist-democratic states since 1945, see R. Miliband, J. Saville and M. Liebman, eds., *The Socialist Register 1984: The Uses of Anti-Communism* London: Merlin Press, and New York: Monthly Review, 1984.

8. This would involve many different measures in the economic, social and administrative fields, all of which would be intended in one way or another to serve the purpose of moving closer to a radically more democratic, egalitarian and cooperative social order. Nor could governments and movements determined to pursue such policies continue with the defense and external policies which have been pursued by the governments of advanced capitalist countries, whatever their specific political coloration, since the end of World War II. The notion of "Socialist directions" and "radical change" is now inextricably linked with profound changes in defense and external policies, based upon the withdrawal, at a minimum, from the anti-revolutionary and counter-revolutionary coalition in which all such governments have been involved in that period.
9. For some further discussion of the topic, see my *Marxism and Politics*, Oxford: Oxford University Press, 1977, Chapter VI, "Reform and Revolution."

# Capital, Crisis, Class Struggle

James O'Connor

## 1. Introduction

It is widely agreed today that modern social theory, contemporary historiography, and late capitalist development itself, including new forms of social struggle, have conspired to fatally weaken the following traditional Marxist and Marxist-Leninist concepts: economic and social crisis, the relationship between crisis and social consciousness, rebellion and Party organization, and reform and revolution. Capitalist development has transformed the meaning of "crisis" (which until the post-War period was defined in separate economic, social, and political terms) firstly into various crisis ideologies, and secondly, into an historical phenomenon which needs to be understood simultaneously in economic, social, and political terms.

"Crisis" defined ideologically is regarded by many Marxists as part of capital's counterattack to the working-class offensive against the law of value, including commodity fetishism, and reification in all of its forms. The word is ideological when it is inappropriately substituted for the concept of social transformation of the administrative-technical apparatus of the state by social movements seeking forms of self-management and democracy.<sup>1</sup> "Crisis" used in this way belongs to ruling class ideology because it leads to demands by capital and the state for the top-down reorganization of the economy, the political system, the state, and social life generally.

At the level of modern historiography,

The idea of a standard revolutionary situation in which an economic catastrophe raises the desperate and rootless poor against their betters . . . has probably disappeared forever . . . economic crises are only likely to stimulate rebellion under very special circumstances: when they place the powerful in the position of withholding or extracting resources from organized groups of persons who have established claims on these resources.<sup>2</sup>

At the level of social theory, "critical theory" has argued convincingly that labor and material production are only one, albeit the most important, mediation between human beings and their environment, hence that the methodological premises of traditional Leninism are unsound, excepting insofar as the Party defines itself as *the* social and political mediation. It is now commonplace in neo-Marxism that human consciousness has itself a constitu-



tive role in the construction of social reality, hence that human emancipation cannot be based solely or mainly on "objective" economic conditions and roles, or merely bad fits between economic conditions and capitalist ideology. The word "crisis" is soaked with social, political, and cultural meanings, and the connections between economic crisis, consciousness, and social action are mediated by these social concepts at many different levels of human experience. Particularly, the fusion of social-political and ideological concepts of crisis in the popular media means that a kind of permanent crisis consciousness exists independent of any and all capitalist "laws of motion."

Most important, the actual historical development of "late" capitalist societies since World War II has thrown into doubt traditional meanings of "economic crisis." Firstly, critical theory and Italian neo-Marxism have demonstrated convincingly that society and culture are deeply implicated in the process of capitalist accumulation. The result is that the modern "social factory" and related "new social movements," based on direct participation in social reproduction generally and the "centrality of the body" in particular, cannot be understood in terms of traditional economic or social theory, but rather demand a new kind of economic sociology. In various theories of the social factory and new social movements, social struggle is no longer explicable in terms of

[T]he logic of capitalist development or dysfunctions in the system's integrative mechanisms [but rather] the existence of structural antagonism must be socially established [which occurs because] the production characteristic of advanced societies requires that control reach beyond the productive structure into the areas of consumption services, and social relations.<sup>3</sup>

According to Melucci,

[T]he struggle centers around the issue of group identity; there is a return to the criterion of ascriptive membership (sex, race, age, locality) which is the form taken by revolt against change directed from above. The movements also have instrumental objectives and seek advantages within the political system, but this dimension is secondary in comparison to the search for solidarity and in comparison to the expressive nature of the relations found in them.<sup>4</sup>

In the second place, neo-Marxism stresses that modern capitalist accumulation is also enmeshed deeply in politics and state policy.<sup>5</sup> The deep interpenetration between state and capital, politics and economy, means that modern "political capitalism" is inexplicable in terms of conventional

economic and political theory. Rather, new kinds of political economic theoretical approaches are called for. These have included the theory of the fiscal crisis of the state according to which economic contradictions partly find their expression in the state finances in modern capitalism.<sup>6</sup> They have also included Claus Offe's theory that the historical limits of modern capitalism can no longer be defined in terms of the contradictions which the system generates, but rather in terms of the limitations of the political and state equilibrating apparatus which is designed to manage primary "economic" contradictions.<sup>7</sup> Offe advances a theory of the

. . . *system crises* of capitalist societies . . . which seeks out crisis-prone developments not . . . *in the exchange sphere itself*—i.e., on the basis of an *economic* crisis theory—but rather *in the relationship between the three fundamental organization principles* of society as a whole [the family-normative, business-calculative, and state-coercive]. Not the self-negation of the exchange principle, but rather the question of whether it has been overlaid and challenged by the two alternative organizational principles would be the criterion of crisis processes.<sup>8</sup>

In particular, crisis-proneness is explained by "the development of the normative and political subsystems . . . which infringe on the dominance of the sphere regulated by the exchange of equivalents, namely, the economy." Offe argues that "the more the capitalist economy is forced to utilize 'external regulatory services,' the more precarious becomes its problem of prevailing against the inner dynamics of these 'extraterritorial' systems and of safeguarding itself against encroachments by them." The problem thus arises—one which Offe suggests has no permanent answer—of "*politically regulating the economic system without materially politicizing it*, i.e., negating it."<sup>9</sup>

Thirdly and finally, critical theory and neo-Marxism emphasize that society and culture (including the family) themselves have come to be increasingly politically administered by the state. Modern "administered society" renders conventional political and social analysis more or less useless, and instead demands new kinds of political sociology combined with a critical social psychology. According to Jurgen Habermas: ". . . the rationalization of social life, or the extension of subsystems of purposive-rational action beyond the confines of the market, laws, and the administration, generates a dynamic whose consequences may undermine the very legitimacy of such rationalization processes . . . the extension of the administrative-instrumental control may lead to its own process of demystification. Domination does not become anonymous. As the process of its own generation becomes transparent through the apparent intervention of the political apparatus into all domains of social life, domination relations may be subjected to increased legitimation demands."<sup>10</sup>

In sum, in modern capitalism, it is no longer useful to treat economic, social, and political life as if they were separate entities. The crucial task of modern crisis theory is to develop a unified "field theory" based on the recognition that economic, social, and political crisis tendencies and trends *interpenetrate* in ways never systematically studied by historical materialism. One beginning has been made by the *Autonomic* tendency in Italy ("class struggle" theory of crisis) which attempts to link modern crisis with social and political movements of oppressed minorities in the imperialist countries, social movements of "marginal populations," national liberation movements, women's struggles, etc. Similarly, Manuel Castells has recently argued that modern economic crisis is "caused by a general process of social disruption in the most advanced capitalist societies."<sup>11</sup> Social disorganization has "called into question the structure of social relationships underlying the pattern of capital accumulation . . . and triggered the structural tendencies toward a falling rate of profit." These lines of theoretical attack are a vast improvement over Marxist orthodoxy because they link social structure and social organization with economic crisis generally and the profit rate in particular.

Habermas is perhaps the best-known exponent of the view that "the laws of the economic system are no longer identical to those analyzed by Marx" because of "interference from the political system," hence creating the need for a new theory of the "interaction of economics, politics, and culture."<sup>12</sup> Habermas advances a crisis theory which tries to combine "objective" and "subjective" methods, without falling into the trap of either determinism or voluntarism. He writes that "to conceive of a process as a crisis is tacitly to give it normative meaning—the resolution of the crisis affects a liberation of the subject caught up in it." In traditional Marxist terms, "subject" has the twofold meaning of "capital," which is understood as the systemic, historically-specific process of valorization, and "working class," which is construed as self-conscious, organized, combative human subjectivity during economic crises. "Liberation" in the first sense means successful crisis-induced capital restructuring, i.e., restoration of conditions of capitalist accumulation. In the second sense, "liberation" means social and political transformation and, at the limit, revolution, i.e., freedom from the pain and suffering which invariably accompany economic crises.<sup>13</sup> In neo-Marxism, however, "liberation" may be thought to assume the additional meaning of freedom from crisis-induced powerlessness, threats to the individual's social identity, and loss of what it is possible to accept in matter-of-fact ways.<sup>14</sup> These latter meanings of crisis as an "ordeal" underwrite neo-Marxist concepts of emancipation because liberation from the pain and suffering of unemployment, economic insecurity, and poverty alone can be effected, however imperfectly and temporarily, by the restoration of capital's "normal sovereignty," i.e., renewal of profitable conditions of capitalist accumulation.

Habermas demonstrates convincingly that liberation defined in terms of social

identity, social practice, and power cannot fruitfully be discussed within the framework of the orthodox Marxist theory of accumulation, which is defined as a variety of "systems theory" (however dialectical its method, hence, however sharp the difference between Marxist orthodoxy and bourgeois systems theory). Instead, some kind of "action theory" is needed. Echoing the critique of Leninism discussed above, Habermas writes that:

. . . systems are not presented as subjects, but only subjects can be involved in crises . . . only when members of society experience structural alterations as critical for continued existence and feel their social identity threatened can we speak of crises. *Disturbances of system integration endanger continued existence only to the extent that social integration is at stake*, that is only when the consensual foundations of normative structures are so much impaired that society becomes anomic. Crisis states assume the form of a disintegration of social institutions."<sup>15</sup>

Habermas' formulation of the problem suggests that his method is, in part, a kind of radical Durkheimianism. He distinguishes between economic system integration and social integration and thereby suggests possibilities for radical improvements of traditional Marxist scientism and objectivism on the one hand, and voluntarism on the other. In Durkheimian thought, system integration occurs when system functions are integrated into one another. Social integration exists when individuals are normatively integrated into particular functions, hence fulfill expected economic and social roles. This difference between system and social integration suggests a taxonomy of crisis possibilities which Habermas does not develop but which is present (in a different form) in "class struggle" crisis theory.

Methodologically, system crisis depends on the assumption that labor-power is the *object* of exchange alone, hence, that the wage bargain expresses the equal exchange of equivalents. It also assumes that the worker is the *object* of labor alone, hence, that capital totally dominates the production process. Finally, system crisis theories presuppose that the product of labor is a commodity strictly defined, hence, that all *needs are commodified*. It is clear that system crisis theory rules out class struggle in any of the circuits of capital. By contrast, social crisis theory depends on the assumption that labor-power is also the *subject* of exchange, hence that needs are subjectively evaluated by the worker. Moreover, it presupposes that the worker is also the *subject* of labor, hence that the labor process is subjectively evaluated by the worker. In turn, it assumes that the product of labor is not a pure commodity. This means that *needs to one degree or another are fulfilled directly in the social form*, rather than in reified ways through the mediation of commodities. Social crisis theory is, in this sense, based on social and class struggle approaches to wages, work,

prices, and needs.

Orthodox Marxist theories of economic crisis defined as systemic ruptures in the circuits of capital exemplify systems crisis theory, i.e., system disintegration. Class struggle is assumed to have little or nothing to do with the lack of sufficient money to advance for constant and variable capital, the absence of sufficient labor-power or means and objects of production, and/or insufficient money revenues to realize total values produced. Liquidity crises, crises of supply of productive inputs, and realization crises are systemically produced by uncontrollable movements of the value composition of capital, rate of exploitation, international economic relations, population growth rate, etc.

By contrast, theories of economic crisis defined as ruptures in the circuits of capital which are intentionally or unintentionally produced by social praxis or direct working-class action exemplify social disintegration. System forces may be assumed to have little or nothing to do with wage struggles which create liquidity crises, struggles against work which produce productivity crises, and/or struggles against prices in the sphere of circulation.<sup>16</sup>

The important point here is that this kind of social disintegration may or may not result in system disintegration. Social struggles which have an impact on the circuits of capital may, in fact, be functional for capitalist system integration. If we image wage struggles interrupting the money circuit, sabotage or struggles against technological or environmental change interrupting the productive circuit, or self-reduction in prices, mass theft, consumer boycotts, etc., interrupting the commodity circuit, then these circuits function as vehicles or avenues of worker struggle. We then have a combination of system and social disintegrative processes which may or may not reinforce one another, i.e., worker struggles may be system-stabilizing or destabilizing. Wage struggles may resolve systemic problems of value realization. Stoppages in production which reduce the amount of money capital required to be advanced for variable capital may help resolve liquidity problems or problems of excessive inventories. Self-reduction of prices may help resolve credit crises and destabilizing inflation. Whether or not these results occur does not depend on the logical conditions of the system and social theory models, but rather on concrete historical conjunctures. It has been argued that worker struggle and social disintegration at one time *historically* functioned as engines of class recomposition and capital accumulation.<sup>17</sup> Social struggle and social crisis thus may not create but rather help to resolve economic system crises when the result of worker struggles bears little or no relationship to intentions, i.e., when there exists historical structural gaps between "objective conditions" and "subjective wills."

It is clear that these kinds of approaches to crisis theory and the contemporary crisis of capitalism pertain to the *conditions* of crisis, not crisis *historically understood*. On the one hand, "capital logic" delineates systemic conditions of disruptions or breakages in the circuits of capital. On the other hand, "class

struggle logic" delineates social conditions of disjunctures in the capital circuits. Just as there is a world of difference between the theory of the conditions of capitalist accumulation and capitalist development historically understood, there is also a large difference between a *conditional* theory of class struggle and crisis *historically understood*. Both "capital logic" and "class struggle logic" delineate logical possibilities of crisis, but tend to neglect actual historical and institutional analysis generally and the forms of modern struggle and crisis in particular.<sup>18</sup> These approaches may be considered effective ways to organize thoughts and categories, but they have no direct political relevance because they are not grounded in the analysis of ideologies, institutions, and the historical situation or conjuncture. They pertain to abstract stresses, tensions, and disjunctures rather than to *concrete ideological contradictions* which both sides in the class struggle seek to mobilize and exploit. "Capital logic" and "class struggle logic" are combined in various ways in real history alone. When these kinds of logic are separated they can only be *analyzed*. When they are combined and historically grounded, theoretical *synthesis*, hence social and political praxis, become possible.

Even when the model is enlarged to include not only shortages of money capital, labor-power, and effective demand, but also fiscal resources, political and administrative resources, and motivations and incentives, only logical possibilities present themselves. Fiscal deficits, for example, may or may not activate motivations, hence legitimation deficits. Reduced capacities for administrative rationality or economic steering may or may not reinforce fiscal and/or profits shortage, and so on. In sum, in the same way that ruptures in the circuits of capital may be conceived as systemically produced or created by working-class intervention, administrative capacity, motivations and political legitimacy may be conceived in terms of capitalist logic (e.g., neo-Weberianism, bourgeois social psychology, etc.) or within the framework of social struggles and emancipatory practices. It should be added, however, that the differences between such practices within the circuits of capital on the one side, and within society and the state on the other, are great. The wages, hours, working conditions, and price struggles necessarily combine with the logic of *valorization*. By contrast, in the process of social and political struggle substantive rationality combines with technical rationality; practical-critical reason with instrumental reason; legitimation defined within working-class organizations and movements with capitalist state legitimation; social motivations with individual motivations; individuals as historical, social beings with ideologies and practices. Ambiguities abound.

## 2. Social Crisis as Class Struggle

The logicalistic formulations of crisis theory which a reading of Habermas and "class struggle" theory inspires under present crisis conditions lead to

dead ends because they do not break sharply enough with traditional Marxism. In fact, the structuralist-functionalist presuppositions of Habermas' approach unexpectedly reinforce orthodox Marxism's theory of "capital logic." The main reason is that the "new left" in general and Habermas in particular reject possibilities of emancipation within the productive working class. This follows from their interpreting the capitalist labor process as a productive force, as an instrumental rather than also a practical-critical social relationship of production. Subjectivity is "squeezed out" of the labor process by tyrannizing science and technology, i.e., by the modern technological rationalization of the labor process. Hence, emancipatory potentials exist only in spheres of activity not yet totally penetrated by capital.<sup>19</sup> With the exception that Harry Cleaver includes the active, as well as the latent, reserve army as the source of emancipatory potential, Habermas' and the "class struggle" theory are surprisingly similar. In Cleaver's words:

... as constant capital, especially fixed capital in the form of machines, plays an ever more dominant role in production, it becomes more and more difficult for capital to impose commodity producing work as the central social activity. The more difficult it is to impose commodity producing work, the more difficult it is to shape the rest of life around the reproduction of labor-power. As this occurs, *labor as a source of value to capital falls into crisis*. Business must either find new avenues of imposing work, new fields of labor-intensive production, or the mechanisms of its rule will continue to decline, opening wider and wider spaces for working class struggle.<sup>20</sup>

In Habermas' more theoretically sophisticated, but less materially grounded view, "symmetrical and more expressive forms of interaction" are possible only within newly proletarianized sectors, youth cultures, marginal workers, oppressed minorities, and the women's movement. While Habermas introduces a powerful historical dimension to his social crisis theory and his analysis of "life-world and system, what is of interest to [him] is the logic of justification of the interpretations of values and norms within these movements, and not their substantive content of concerns."<sup>21</sup> As Cohen explains:

... the reconstruction of the logic of moral-cultural development cannot enter into or explain the *dynamics* of social movements in and through which the battles over interpretation of norms and the creation of new ones are fought. . . . Habermas' theoretical strategy *can* explain the likelihood of crises of social identity and assess the abstract cultural possibilities available for alternative identity construction. But despite the attempt to introduce an action

framework into crisis theory, despite the importance of providing a standard with which to assess the character of social movements—they play no constitutive role regarding legitimation, the functioning of the public sphere, or the creation of norms."<sup>22</sup>

On a related but different point, Habermas' approach fails to grasp that capital and class struggle are living contradictions, i.e., that productive economic (not only social and political) activity is both symmetrical and asymmetrical, expressive and nonexpressive. His formulation loses sight of the crucial fact that real-life communication in the labor process, as well as in the "public sphere" and society generally, exemplifies neither the domination of capital over labor alone, nor emancipation and freedom, but rather both simultaneously—albeit in terms of the hegemonic ideology (which in the USA means ideologies of individualism). Real communication and social interaction in class society, which is also divided by racism, sexism, national chauvinism, and individualism, are characterized by ambiguities of language and action which are the result of, and at the same time socially constructed into, "contradictions." Hence the importance of social theoretical decoding methods for the critique of the capitalist labor process, crisis theory and political practice.<sup>23</sup>

Social institutions do not simply "disintegrate," but instead are subverted or destroyed by new institutions, however informal, fleeting, or invisible to the media and social science, which are established in the course of the "long march." "Destruction and deformation," Knodler-Bunte writes in his critical remarks on Habermas, "are interlaced with new growth and new formations."<sup>24</sup> In this alternative view of labor, culture, and crisis, society does not become simply "disrupted" or "anomic" or "normless," but rather is torn by competing and contradictory norms. Social integration per se is not at stake, but rather what *kind* of social integration governed by what *kinds* of norms, goals, and practices. A critical historical materialist concept of crisis must, therefore, restore the dialectical unity between "objectivity" and "subjectivity" or between "theory" and "practice" which permits us to grasp "crisis" as the development of new social and political practices which threaten existing social structures.<sup>25</sup> In this sense, crisis defined as "turning point" exists when new power centers confront existing structures of domination, when individual identity is split between contradictory premises, when it is generally unknown what can be taken for granted or expected from both existing and emerging institutions, organizations, social practices, and roles. "Crisis" defined in this way has weak status in orthodox Marxist thought and neo-Marxism. It has no status whatsoever in bourgeois thought because within its undialectical problematic new social relationships are grasped as building on, gradually replacing, or adapting to older relationships and practices, i.e., boundary lines between older and emerging social processes, values, norms, and so on are



blurred by processes of mutual adaptation or mystified by only apparent resemblances between old and new.

A social-scientific view adequate to the task of comprehending the present crisis has to interpret the roots of both decadent or blocked social processes and emancipatory possibilities as lying in the same human critical practice.<sup>26</sup> Crisis is, therefore, not anomie or social disintegration but *social struggle* and *social reintegration*. This crisis definition is faithful to historical fact. When crises defined as threats to older social relationships "break out," social classes and class fractions which cling most tenaciously to old premises and material and ideological resources fight back most violently, in this way creating conditions for historical ruptures. Struggles ensue in which old power centers try to reinforce and defend structures of domination and control. The greater the threat from new centers of power, *ceteris paribus*, the greater the resistance thrown up by the old centers of domination. *The essence of crisis therefore is not social disintegration but social struggle*. As Marx, Engels, and Lenin's political writings testify, it is only the resistance of the established social powers which test fully the strength of emerging social powers.

When new social forces strengthen themselves through struggle to overcome the hardening resistance of old power centers, there develops a conjuncture during which the old social relationships may be restructured. On the other hand, old power centers may succeed in smashing or taming the standard bearers of the new social practices, which may be adapted to the needs of the existing dominant social relationships. In either case, the struggles of old powers to defend themselves by reinforcing their particular structures of domination *are themselves costly*. Social struggles which constitute contingent crisis moments in which objective and subjective processes apparently collapse into a single combat, but which remain structurally distinct in the social and individual "unconscious," invariably raise the material, ideological, and political ante. Gains and losses become combined historical processes. Crisis resolution, therefore, expresses itself not only as the abatement of struggle but also as the "capitalization" of gains, the rebuilding of weakened structures of domination, the abandonment of previously strategic defensive positions, and the adaptation of old ideologies. Failures of social movements to restructure society leads back to obsessive capitalist accumulation with new layers of ideological legitimations. By contrast, successful struggle is not only based on the practical critique of dominant ideologies and the reconstruction of social relationships. It is also based on the *self-destruction* of capital and its ideologies suffered in the course of their counterattack to prevent these new social relationships from destroying the old.

According to this concept, accumulation and legitimation crises, crises of authority and administrative rationality, and motivations crises mean that older norms and social mechanisms can no longer be accepted in a matter-of-fact way. It cannot be taken for granted that political consensus through established

patterns of coalition-building is possible or that the state can steer the capitalist economy successfully. Men cannot accept matter-of-factly that women will perform their "traditional duties." And so on. Cynicism, however, is merely one element in an ensemble of contradictory crisis attitudes. While normal social and individual capacities are in part or whole lost, human capacities are at the same time redefined. Political leaders build new fighting coalitions and communities reconstruct steering mechanisms or invent new ones. Workers adopt new attitudes and practices about technology and its uses, the nature of the labor process and the product of labor, and the nature of social reproduction as a whole.

The significance of this whole line of analysis is not merely that human ideological and technical interventions are needed to resolve crisis through social reintegration. Most importantly, crises in established institutions and social and economic processes are *produced* through reconstituted human interventions which the contradictions of capital and capitalist society, especially ideological contradictions, in general, make possible. Contradictions within the productive circuit of capital; problematic formations of human wills, needs, and personal motivations within the sphere of consumption; irrationalities within the money and commodity circuits of capital, the sphere of capitalist competition, and in state administration; and questionable political participation and divided loyalties not only "result" from crisis, but also have powerful independent effects today on valorization, the profit rate, and the rate and stability of capital accumulation.

Traditional Marxist and other crisis theories which interpret social movements as reactions to crisis symptoms in this way can be seen to be fatalistic. By contrast, crisis theory which grasps the fact that social movements operate in fields against and *within* the law of value, against and *within* the state and society, and against and *within* hegemonic ideologies are not fatalistic. It is true that under certain conditions traditional Marxism may be able to "predict the future," but (excluding Lenin's "tactical science") it can rarely judge "what can be made to happen in the future" precisely because it is not immersed in existing or potential prefigurative, combative social practice. Social scientific crisis theory must be formulated in terms of what has been *made* to happen in history and what can be *made* to happen in the future, rather than in terms of what has happened and what will probably happen. Crisis theory thus meaningfully explains social action today when, and only when, it has become a weapon in the hands of contemporary social and working-class movements which seek "to make the future the present."

These are the reasons why both Marxist orthodoxy and neo-Marxism continue to separate economic theory from social-political theory, and why the "class struggle" school tends to neglect social-political theory. In the orthodox Party, economic crisis theory remains in the hands of specialized economists, while political theory remains the monopoly of the Central Committee. In the

politically unorganized world of neo-Marxism, subjectivity is reintroduced at the level of analysis of social and political processes, but economic theory remains separate and from a practical standpoint is purged from the study of sociology and historical materialism. The possibility that crises are socially constructed rather than systematically created underscores the limitations of the orthodox Marxist medical model of crisis in which there is no room for human subjects to create their own crises (at least not in terms of the external germ model of disease). By contrast, neo-Marxism at its best stresses that crisis is a "process of destruction *and* construction, challenge *and* response, of unsettling anomaly *and* nascent attempts to proliferate interpretive responses which subvert the old normality."<sup>27</sup>

### 3. *The Working-Class Movement and Contemporary Crisis*

A plausible theory of the contemporary crisis is that modern accumulation crisis tendencies originated in the contingent and contradictory practices of capital and the working-class movement, i.e., class struggle, rather than in the "systemic economic contradictions of capitalism." In this general sense, such a theory belongs to the family of "class struggle" crisis theories. The question immediately arises, what and where was (and is) the working-class movement? Open conflict between capital and labor *as a whole* occurs only in periods of political revolution (e.g., Russia in 1917, Cuba in 1959-1960, Chile in 1970-1972). In nonrevolutionary and prerevolutionary situations open and general class warfare is absent by definition. Did the workers' movement therefore normally consist in the struggle for wages, hours, and working conditions alone? Or more broadly, also in the struggle against productivity within the productive circuit of capital? Or even more broadly, in the struggle against prices as well e.g., the battle to control rents, depress interest rates, fight inflation? Or should the concept of working-class movement be stretched to include struggles *within* the working class to overcome ideological division and establish principles of unity which function as the basis for discursive reason, collective will formation, and social praxis?<sup>28</sup> To raise this question suggests the enormity of the theoretical problem of developing a "theory of class struggle" which includes but also contrasts with Marx's critique of political economy, or the "class struggle of theories."

In the United States since the War, the class struggle assumed as many forms as there are forms of economic, social, and political life. Struggles, in fact, infused the social factory, political capitalism, and the administered society. Most important in the present context, Marx himself stressed that class struggle historically assumes *ideological forms* which make it appear that class struggle as such does not exist. Thus, in Roman slavery, class struggle was partly fought out in terms of the juridical rights of human beings who also "happen to have

been" slaves. In feudal Europe, based in part on religious domination, class struggle assumed the form of religious warfare. At the time of the Estates in France, class conflict was fought in terms of Estate rights and privileges.

In the capitalist mode of production Marx stressed that the basic contradiction is between social production and individual appropriation. The traditional Marxist formulation, however, failed to emphasize the contradiction between social production and individualistic forms of production. It underestimated how "individualism forms" disorganized the working class, not only in production but also in distribution, exchange, and consumption, and within social reproduction generally, including the reproduction of politics and the state. Ideologies of individualism and ideological practices inhere in the wage and commodity forms of material life and in forms of social and political life. Working-class struggle "in-itself" occurs *within* the wage form, commodity form, and individualistic social and political forms. These include trade unionism, consumerism, environmentalism, and social democracy, which are typically characterized by the use of collective means for individualist ends. In short, in a society of individual property owners, including and especially individual ownership of labor-power and means of consumption, worker struggle "in-itself" necessarily takes the forms of individual struggles for individual goals and ends. The reason that the issue is not normally formulated in this way is that the abyss between social production, industrial and social division of labor, and science and technology as productive forces, on the one side, and individualism ideologies and practices, on the other, is so vast that it is largely taken for granted.

By the late 1970s, (in the United States, at least) the resulting ambiguities in economic, social, and political life, and individual and social consciousness, appeared to be intractable. These ambiguities were ideologically interpreted as "contingencies," i.e., they were objectified and reified. The typical attitude which was adopted toward these ambiguities was ambivalence, i.e., a kind of economic, social, and political fence sitting. These lived ambiguities, their objectification as contingencies, and resulting ambivalent mass attitudes unintentionally helped to undermine the process of valorization and accumulation. The accounts of economic and social life based on the individual as the "unit of analysis" became less and less satisfactory. Fits between economic, social, and political conditions and official explanations of these conditions became worse and worse. Bad fits between social production and social needs and the wage form of labor and the commodity form of need satisfaction multiplied. Individualism ideologies and practices ceased to perform their normative integration roles on the one hand, and became increasingly expensive materially, hence barriers to accumulation, on the other.

Specifically, the definition of individuals in terms of property, positions, roles, files, numbers, and so on, i.e., social integration based on the integration of living persons into ideologically defined functional roles, had two crucial

consequences. First, when persons defined themselves in terms of their relationship to abstract categories, which became increasingly distant from actual social conditions, rather than in terms of other living persons, affect and conscience became subsumed under instrumental reason and personality integration was automatically threatened. Status attainment did not reinforce but rather undermined the individual's sense of self-worth. Ideologies of individualism which were systematically practiced with the purpose of obliterating class domination and exploitation displaced social conflict to the internal personality dynamics of individuals.

At the same time, personality integration, at the level of instrumental cognition depended on system integration, i.e., the law of value, world market, rational state administration, political legitimation, and so on. When individuals defined themselves in terms of their ideological roles, at just the moment when economic disintegration, irrationalities within the state crisis management, etc., destroyed the "fit" between these roles, individual persons tended to lose their identities at the instrumental cognitive level. "Who am I?" could not be answered even in terms of reified social functions. System crisis was thus experienced subjectively as personal crisis.

This is one reason why it is difficult if not impossible to separate the two concepts of economic system crisis and social crisis. Social malfunctioning was the spontaneous result of system malfunctions and vice versa. In the United States, for example, unemployment, poverty, and hard times were experienced more than anywhere else in the world as personal failures; individualism ideologies inevitably resulted in self-blame. When self-blame created threats to the personality, the result was scapegoating, revivals of virulent racism, the Klan, etc. This was inevitable in a society where psychology treated the individual person as such (i.e., a psychology which reified possessive, isolated privatized individuals), not in terms of the totality of relationships which constituted the individual's social life. "Psychology is now a fundamental ideological tool in the construction of individual self-understanding and the support of current forms of social fragmentation."<sup>29</sup> It reproduced on an expanded scale the "bad fit" between individualism ideologies and real individuals, which therefore became increasingly problematic and confusing, e.g., the total confusion surrounding psychiatric testimony in criminal cases in the United States.

The second consequence of defining living persons in terms of ideological abstractions was that material well-being was defined in the ideological terms of wage and commodity forms. Social reproduction was defined not in terms of the reproduction of social relationships between living people or cooperative subjects, but rather of the reproduction of ideologies. Given that the reproduction of capital, state, and society were defined in terms of the reproduction of individualism ideologies, when personality crises destroyed the fit between individuals and their positions and roles, the system worked increasingly less

well. System malfunctioning therefore became the spontaneous result of social and personality crisis.

The destructive dialectic between social and system failures in this way blurred the distinction between society and economy, economy and the state, politics and the state and society. System and social reproduction based on individualism ideologies and practices became permanently threatened by bad fits between living persons and functions and between functions themselves. Threats to system rationality threatened social rationality and vice versa. According to Habermas, crises do not exist unless they are subjectively experienced. According to the present argument, subjective and objective crises were simply different sides of the same historical process. No simple cause and effect relationship explained the social and psychological turmoil of the 1960s and 1970s coexisting with inflation, unemployment, and the crisis of profitability. Rather, in the American social factory, political capitalism, and administered society, social and system disintegration/reintegration reinforced one another. The modern crisis became one "general" crisis which was (and remains) a permanent dual threat to capital and personality and social integration. The crisis of capitalist accumulation was the crisis of the individual and society. Inflation of money and inflation of the sense of self were two elements of the same process. The counterpart of the ambiguous character of social existence was the ambiguous economic condition called "stagflation." Individual crises were the way that economic crisis and crisis of crisis management expressed themselves. Economic crisis and administrative crisis were the ways personality crises expressed themselves. When the economists tried to restore stability by adjusting system functions to one another, failure was preordained because the problem was not merely bad fits between system functions defined in ideological terms but also bad fits between individuals and their ideological functions. The confusion of Americans regarding his or her identity as a person within society was the other side of the economists' confusion regarding economic modeling.

## 5. Conclusion

As Marx showed, "capital" is an antagonistic social relationship within which the working class produces commodity wealth and surplus value. As we have seen, "crisis" is social and class struggle marking the turning point in this social relationship. Since capital defined as class domination maintained itself first and foremost by individualism and other ideologies and practices, "crisis" was in fact social struggle within and against these ideologies and practices: the turning point with respect to their economic, social, and political efficacy, and a time to decide whether to accept or reject them.

As crisis tendencies multiplied, the contradiction between social production and social needs, on the one side, and individualism ideologies and practices, on the other, assumed more extreme forms. In the United States of the early 1980s, this form was Reaganism, a kind of ideological neo-individualism, neo-liberalism, and neo-conservatism which adopted extreme conceptions of entrepreneurship, savings, investment, motivations, incentives, and so on. However, at the same time Reaganism attempted to moderate the contradiction between social existence and individualism ideologies by restoring old identities between individualism and traditional national chauvinism, white supremacy, and patriarchal familism.<sup>30</sup> This contradiction threatened to explode at the level of popular struggles to reorganize social, economic, and political life, that is, to develop creative and self-conscious forms of cooperation within society, economy, and polity. The extreme narcissism and disconnectedness which characterized the United States' capitalism in crisis faced sharper challenges from the reformed family, the local political community, alternative forms of economic and sex/gender organization, and movements to democratize the social administration of society.

In sum, the working class and salariat today live an incredibly ambiguous existence. On the one hand, the temptation becomes stronger to withdraw even further in order to regain individual subjectivity in tiny corners of social life not yet colonized by capital and the state administration. On the other hand, the need becomes stronger to attempt to regain subjectivity through discursive reason, collective will formation, and critical practice oriented to the long struggle to change the "objective" conditions of the wage and commodity forms, and other social forms within which individualism ideologies and practices are produced. The fearful and partly suppressed polarization of United States society finds its immediate political expression in Reaganism. It exemplifies the tension between illusory escape into the fantasized, nostalgic, and messianic world of nineteenth-century "progress," science, and the domination of nature, on the one hand, and the struggles against racism, sexism, national chauvinism, ageism, and individualism (i.e., against capitalist social divisions), which are the forms critical practice assumes today, on the other.

Class struggles have always been structured by political, economic, and ideological relationships, which today in crucial respects assume the form of individualism. To answer the question whether working-class struggle includes attempts to overcome divisions within itself, to establish principles of unity as a basis for collective will formation and critical practices, the answer is that it consists of little else. It is precisely working-class struggles to overcome itself "against itself" (which means, in modern capitalism, the more it gets within wage and commodity forms, the less possible it is to get more) and the prefigurative practices therein which constitute the working class "for itself." Only struggles which aim to unite the proletariat broadly defined create solid

forms of social reintegration by reconstituting "individual" to mean "social individuality and indivisibility" and by recreating within democratic processes good fits between real people and real social, economic, and political activity.

### Notes

1. Alaine Touraine, "Crisis or Transformation?" Norman Birnbaum, editor, *Beyond the Crisis*, New York: Oxford University Press, 1977; James O'Connor, "The Democratic Movement in the United States," *Kapitalistate*, 7, 1978. See also, Russell Jacoby, "Narcissism and the Crisis of Capitalism," *Telos*, 44, Summer 1980; Robert Alford, *Health Care Politics: Ideological and Interest Group Barriers to Reform*, Chicago: University of Chicago Press, 1975, xi-xii.
2. Lynn Lees and Charles Tilly, "The People of June, 1848," Center for Research on Social Organization, Working Paper No. 70, University of Michigan, February 1972, 4.
3. Alberto Melucci, "The New Social Movements: A Theoretical Approach," *Social Science Information*, 19, 2, 1980, 209, 217.
4. *Ibid.*, 220. For a similar argument, see Joel Kovel, "Narcissism and the Family," *Telos*, 44, Summer 1980, 99.
5. The standard work is Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power*, New York: Oxford University Press, 1965. One of the best critiques of state economic planning is Stephen S. Cohen, *Modern Capitalist Planning: The French Model*, London: Wiedenfeld and Nicolson, 1969.
6. James O'Connor, *The Fiscal Crisis of the State*, New York: St. Martins Press, 1973.
7. Claus Offe, "Crisis of Crisis Management: Elements of a Political Crisis Theory," *International Journal of Politics*, 6, 1977.
8. "Crisis of Crisis Management: Elements of a Political Crisis Theory," *op. cit.*, 34-35, 51-52. As Jean Cohen writes, Offe "refrains from deducing the conflict potential of social actors" because of the new complex identities of "social actors" (Jean Cohen, "Between Crisis Management and Social Movements: The Place of Institutional Reform," *Telos*, 52, Summer 1982, 23).
9. Offe, *ibid.*
10. Seyla Benhabib, "Modernity and the Aporias of Critical Theory," *Telos*, 49, Fall 1981, 50, summing up a central line of analysis in *Legitimation Crisis*, (Translated by Thomas McCarthy), Boston: Beacon Press, 1975. Benhabib continues: "The crux of Habermas' argument is the analysis of those mechanisms through which economic and administrative rationality crises can lead to a legitimation and motivation crisis. In late capitalist societies, such crises can occur only when, under the conditions of the repoliticization of the relations of production, the depoliticiza-



tion of the relations of production, the depoliticization of the population and their manipulation to accept technocratic, nonparticipatory ideologies can no longer be secured. But—and this is Habermas' ground for rejecting the thesis of the reification of domination—the *manipulative production of legitimation becomes destructive as soon as the mode of its production becomes visible*: 'there is no administrative generation of meaning' . . . A crisis of legitimation can be expected when expectations are generated that cannot be satisfied within available patterns of value and through other compensatory mechanisms. Legitimation crises must be based on a motivational crisis." [ibid., 5].

11. Manuel Castells, *The Economic Crisis and American Society*, Princeton: Princeton University Press, 1980, 5.

" . . . we do not see the theory of class struggle and the theory of the falling rate of profit as contradictory but as complementary. This is because the first explains the effects of society on capital and the second the effects of capital on society." [ibid., 2]. A summary of the history of the idea that "capital" means "class struggle" can be found in Harry Cleaver's *Reading Capital Politically*, Austin: University of Texas Press, 1979, "Introduction."

12. Angelo Bolaffi, "An Interview with Jurgen Habermas," *Telos*, 39, Spring 1979, 168.

In a more recent interview, Habermas poses the problem thusly: "Because Hegelian-Marxist social theory, developed in categories of totality, has decomposed into its parts, namely, action theory and systems theory, the present task now consists of combining these two paradigms in a non-trivial fashion." [Alex Honneth, et. al., "The Dialectics of Rationalization: An Interview with Jurgen Habermas," *Telos*, 49, Fall 1981, 1].

13. Richard Sennett, "Destructive Gemeinschaft," in Birnbaum, editor, *Beyond the Crisis*, p. 171.

14. *Ibid.*

15. *Legitimation Crisis*, *op. cit.*, 3, italics added. This is echoed by John Keane who writes that "the truth of the old crisis theorem remains, the renewal of subjectivity continues to depend on the decay of this system's objective structure and signification." ["Crisis in the Industrial World?," *op. cit.*, 18]. This is also echoed by Daniel Bell who stresses not social institutional disintegration, but the absence of any deep-rooted morality or belief system, which is thought to threaten capitalism's survival most profoundly. [*The Cultural Contradictions of Capitalism*, New York: Basic Books, 1975, *passim*]

16. Harry Cleaver and Peter Bell have worked out "Marxologically" an excellent and comprehensive taxonomy similar to the one offered above. But like Marx himself, they do not distinguish between system and social crisis, class-imposed function integration from class-imposed social integration. Hence, they cannot reunite the "system" and the "social" in politically powerful ways. ["Marxian Crisis Theory as Theory of Class Struggle," manuscript, especially 51 on].

17. James O'Connor, *Accumulation Crisis*, New York and Oxford: Oxford University Press, 1984, chapter two.

18. " . . . system and action theory must remain antinomic if the institutional dimension . . . is not included as an analytic component of social theory . . . Institutional analysis . . . can be seen as a third analytic level, equally indispensable for critical

theory as are systems or action theory. The logic of institutional continuity and discontinuity of modernity is not reducible to either the variation of functions, abstract capacities, or conflictual social action. A society is not only integrated and contested, it is also institutionalized." [Jean L. Cohen, "Between Crisis Management and Social Movements: The Place of institutional Reform," *Telos*, 52 Summer 1982, 35-36].

19. "An Interview with Jurgen Habermas," *op. cit.*, 171.

20. Harry Cleaver, "Theses on the Marxian Labor Theory of Value," paper submitted to the special issue of *Review of Radical Political Economics* on Controversies in the Theory of Value, July 1, 1981, 14. Cleaver's views, of course, are rooted in Marx's theory of accumulation, capital concentration and centralization, growth of an active reserve army, etc. However, it is clear that both Habermas and Cleaver are very influenced by the big facts of the late twentieth century, i.e., Third-World revolution, black revolts, etc., originating in either the latent and/or active reserve armies of labor.

Before his death, Steven Hymer advanced the outlines of a theory of world revolution which in important respects resembles both theories sketched in above. "The revolution in capitalist production relations," Steve said, "begins in the latent reserve army, travels through the active reserve army, and ends with the productive work force. The revolution in the capitalist *forces* of production moves in exactly the opposite direction." During this discussion with Steve many years ago, I was struck by the excellent applicability of this general model to the Cuban Revolution (James O'Connor, *The Origins of Socialism in Cuba*, Ithaca, New York: Cornell University Press, 1970).

21. "These areas of cultural tradition—social integration through values and norms, education, socialization of coming generations—are . . . ontologically speaking, held together by their very nature through the medium of communicative behavior. Once the steering media such as money and power penetrate these areas, for instance by reifying relations in terms of consumption or by bureaucratizing the conditions of life, then it is more than an attack on traditions. The foundations of a life-world that is already rationalized are under life-world itself. In sum, crises that arise in the area of material reproduction are intercepted at the cost of a pathologizing of the life-world."

" . . . until now the processes of destruction have paved the way to capitalist modernization have occurred in such a way as to give rise to new institutions. These new institutions transferred social material from the realm of sovereignty of the life-world into realms of action steered by the media and organized by formal law. This went well as long as it only touched on functions of material reproduction that need not unconditionally be organized communicatively. In the meantime, however, it seems that the system's imperatives are attacking areas of action which are demonstrably unable to perform their own tasks if they are removed from communicatively structured areas of action. This involves tasks such as cultural reproduction, social integration and socialization." ["The Dialectics of Rationalization: An Interview with Jurgen Habermas," *op. cit.*, 22]. Equally concerned with the crisis of modern society, Clause Offe rejects the concept of crisis as an "event" for a concept of modern "crisis-proneness." ["Crisis of Crisis Management": Elements of a Political Crisis Theory," *op. cit.*, 3].

22. "Between Crisis Management and Social Movements," *op. cit.*, 28-29.
23. In the United States, David Montgomery has demonstrated the coexistence of practical-critical reason with instrumental rationality within the capitalist labor process (although it must be added that his demonstration is more convincing when he discusses the late nineteenth century skilled worker) [*Worker's Control in America*, New York: Cambridge University Press, 1970].

For a conceptual redefinition of productive labor which attempts to grasp the deep ambiguities in the capitalist labor process and the coexistence of capital and class struggle, see James O'Connor, "Productive and Unproductive Labor," *Politics and Society*, 5, 1975.

24. "The Dialectics of Rationalization: An Interview with Jurgen Habermas," *op. cit.*, 27.

John Keane astutely writes that "Kuhn's recent historiographical appropriation of the concept of 'crisis' rightly stresses its signification of a process of destruction *and* construction, of unsettling anomaly *and* intervention against the old normality . . . With reference to crisis-ridden social processes, this means that the disintegration of the 'natural attitudes' of those who have become objects of system paralysis facilitates both an expanded awareness of this objective paralysis and active attempts to overcome it." [John Keane, "Bureacracy and Its Discontents: Crisis Tendencies of the Welfare State," manuscript, London, August, 1981].

Jean Cohen adds that Habermas' argument that "legitimation deficits would lead to crises accompanied by motivation deficits implies a standpoint that *abstractly opposes social integration to social disintegration* . . . social movements are perforce relegated to a residual category of social action that is either anomic or reactionary . . . social movements are viewed as crisis phenomena *tout court*." ["Between Crisis Management and Social Movements," *op. cit.*, p. 29, italics added]

25. "In all of Marx's work capitalist crisis is, from the point of view of the working-class subject, a moment not of *breakdown* but of *breakthrough*. If crises for capital are basically its loss of control (direct or indirect) over the working class, then we can turn this relation around and see that they are simultaneously the eruption of working-class subjectivity that undermines capitalist control." [Marxian Crisis Theory as a Theory of Class Struggle," *op. cit.*, 11].

"Crisis and class struggle are articulated so profoundly that the first takes on, within this antagonistic dialectic, the form of catastrophe and the second takes on the form of communism—the realphysical pole of an implacable will necessary to eliminate the adversary . . . the catastrophies for capital are the party, the deployment of communist subjectivity, and revolutionary will and organization." [*Marx Beyond Marx*, Jim Fleming, editor; Harry Cleaver, Michael Ryan, Maurizio Viano, translators; South Hadley, Mass.: Bergin/Garvey, 1984, 1-10, 1-2].

The Hegelian Marxist ambience of "class struggle" crisis theory, which is based on the "identity principle" in philosophy, and which sociologically does not separate functions or activities from people, is nowhere better exemplified than in these powerful lines, which, however, have led to political dead ends.

26. In her appreciation of the recent work of Alain Touraine, Cohen writes that "social movements are the process through which social identities are constituted, and the institutionalized norms and hierarchical stratification system of a given social order,

challenged. . . ." ["Between Crisis Management and Social Movements," *op. cit.*, 31, referring to Touraine's book, *The Voice and the Eye*, New York: Cambridge University Press, 1980].

27. "Crisis in the Industrial World," *op. cit.*, 184.
28. Nicos Poulantzas, *State, Power, Socialism*, London: New Left Books, 1980.
29. Richard Lichtman, Letter, December, 1981.
30. For example, George Gilder, *Wealth and Poverty*, New York: Basic Books, 1981

# The Politics of Intervention: The Italian Crisis of 1976

Cheryl Payer

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Italy is not a Third World country. Although it was one of the late-industrializing nations and is still one of the poorest members of the group of industrial nations, it belongs without any question to that group. Italian corporations, headed by Italian industrialists, successfully export high-quality and high-technology goods produced by Italian designers and engineers.

And yet in 1976 a number of features of the Italian situation seemed to parallel the problems, particularly the foreign exchange problems, of Third World nations. After running comfortable trade and service surpluses in its balance of payments throughout most of the 1950s and 1960s, the country was hard hit by the oil price rises of 1973 and 1974. In order to meet the resulting deficit (exacerbated by politically inspired speculation against the lira) the Italian government sought and received large loans from the IMF, the EEC, and the West German government. In 1974 alone these loans increased Italy's foreign debt by \$5,249,000,000 to a total of \$15.241 billion.<sup>1</sup> The creditors imposed conditions, chiefly of two kinds: first, that no restrictions on trade in the form of import or exchange controls would be imposed; and second, that the budget deficit would be kept within specified limits.

Despite the fact that Italy's external accounts showed marked improvement in the following year, a political crisis triggered a new wave of speculation against the lira in early 1976. Called in once again, the IMF tried to impose austerity on the Italian working class and discipline on the government budget. But by the time the government and the IMF finally signed an agreement in April 1977, the Fund had failed to achieve its objectives and Italy no longer needed the money, as the balance of payments had righted itself (for reasons still imperfectly understood) and the wave of speculation had subsided several months previously.

The Italian case is worth our attention because a close study of its successive episodes reveals the intensely political nature of the supposed economic crisis, and of the IMF intervention as well. The origin of the crisis was speculation touched off by political uncertainty centering around the demands of the Italian Communist Party for a role in the government. The IMF demands had important political consequences for both left and right, who successfully resisted them. And the Fund's decision to sign an agreement *despite its inability to impose discipline*, was a deeply political act, motivated by the desire of Washington and Bonn to strengthen the Christian Democratic Party against its Communist rival.

The discipline function of the IMF—the requirement that austerity measures

be undertaken as a condition of financial assistance—is by now widely understood. Its support function—bolstering of a right-wing government faced with a significant left challenge—is less well known, but perhaps equally important. In fact there are several examples which are far more extreme than that of Italy, notably wartime Laos and Cambodia, and the contemporary scandal of Zaire.<sup>2</sup> In none of these cases has the Fund been at all successful in imposing discipline, but the desire to keep a pro-Western government in power has overridden all other considerations. Such was also the case in Italy in 1976.

Since the working class has been made the scapegoat of the 1976 economic crisis, we should begin with an examination of the myths and realities of their situation. The business press of the capitalist world has fallen in step with the International Monetary Fund in blaming the *scala mobile*, the indexation of wages to rises in the cost of living, as the main engine of inflationary pressures in Italy. For example, an article in *Fortune* reported that “a key issue in the [IMF-Italy] negotiations was a perverse wage escalator called the *scala mobile* that can push up faster than the rate of inflation.”<sup>\*3</sup> Additionally, Italian unions have learned to resist lay-offs of their members, and the resultant job security is also blamed for the problems of Italian capitalists. As a result of these workers’ gains, it is contended that the “unit labor cost” of Italian goods has been rising faster than those of their close European competitors—pricing the goods out of their export markets.

From the standpoint of logic alone, this argument invites question. If workers cannot protect their wages from being eroded by a rise in the cost of living, then what future can they have under capitalism? If, by protecting their wages and their work places from attrition in recessionary times they thereby wreck the national economy, what stake can they have in such an economy? Insofar as the capitalist assertions about wage indexation are true, the working class has grim prospects indeed under the present system.

But on a less philosophical level, it seems clear that propaganda against the achievements of the Italian working class is largely demagoguery. In the first

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<sup>\*</sup>On the page opposite this quotation stands a related one page story entitled “The Good Life at the IMF” which details the high tax-free salaries and other juicy perquisites enjoyed by the IMF officials who had declared war on Italy’s *scala mobile*. It is instructive to note the reaction of these officials—40% of whom earned over \$30,000 *tax-free* in 1977—when U.S. Treasury Secretary Simon “decided to resist a proposed pay increase for Fund employees. Perhaps because he had learned that more than ninety people at the Fund had higher after-tax incomes than U.S. Cabinet officers, Simon persuaded his fellow finance ministers to hold the pay hike to a cost of living increase . . . Simon’s behavior did not sit well with the IMF staff. Contending that they had not received a real increase in three years, about half the staff staged a one-day strike. . . .”

place, it is simply not true that, on average, the current indexation system pushes wages up faster than the rate of inflation. The Annual Report for 1975 of the Banca d’Italia, hardly a propaganda sheet of the proletariat, refers to the “new indexation system which enables a much greater part of the loss of purchasing power owing to price rises to be regained than in the past.”<sup>4</sup> Calculations of the central bank suggest that under the revised application of the *scala mobile*, about 90 percent of the cost of inflation, on average, are recouped by workers through the indexation scheme. Since the system is based on a “shopping basket” of typical consumer goods, the amount of protection against inflation will obviously depend on how accurately that basket of goods represents the subsistence needs of the wage-earner—a point which became a bargaining issue in the IMF’s assault on the *scala mobile*.<sup>\*</sup>

In order to understand the situation, we need to look more closely at the real condition of this working class, here accused of ruining the Italian economy in its pursuit of the good life.

In the first place, not all workers are protected by the *scala mobile*. Many firms, unwilling to increase their regular work force precisely because of the salary and job protection won by the unions, have revived the “cottage industry” system. Workers in these “black labor” factories or putting-out systems, a large number of whom are women, receive low wages and no social benefits. As a result, these workers cost employers only one-third to one-half as much as would regular employees. It has been estimated that 85 percent of the Italian woolen goods and a large share of shoes—both important export items—are produced by cottage workers.

It is difficult to estimate the number of workers solely dependent on such low cottage industry wages, in part because of the heavy prevalence of “moonlighting”—which in itself is testimony that even those workers holding regular unionized jobs are hardly living in luxury.

When the business press inveighs against the gains made by Italian labor in the 1970s, they seldom remind their readers that these relatively recent gains occurred against a history of very low labor costs, on which the early triumphs of Italy’s export miracle were built. Between 1950 and 1959 real wages of the country’s workers increased at an annual rate of between 1.5 and 3 percent at the outside, while GNP was expanding at 6 percent and industrial output at 9 percent.<sup>5</sup>

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<sup>\*</sup>As Professor Mario Nuti of Cambridge University has pointed out, the *scala mobile* was first introduced in 1947 as an *instrument of stabilization*, since it removes the important element of inflationary expectations in wage bargaining. “If there were no *scala mobile*, wage increases would be higher at the time of periodic wage negotiations.” (From a private communication to the author, February 1978.)



It was above all cheap domestic labor which "financed" Italy's postwar economic recovery. From 1948 to 1955 industrial production increased by 95 percent, profits by 86 percent (1950-1955). Yet real wages rose only 6 percent. The export industrialists were thus able to sell their products at stable or falling prices while maintaining profit margins high enough to self-finance further industrial expansion.<sup>6</sup>

The existence of a substantial "reserve army of unemployed," particularly in the depressed Southern regions of the country, helped to keep wage increases modest in the 1950s. By the early 1960s, the "Italian miracle"—propelled by cheap labor—had created enough jobs to embolden workers to strike for higher wages and better conditions. But the wage increases, even after the successes of labor action in the early Sixties, were still "low by general European standards, even in countries in which GNP was rising much less rapidly."<sup>7</sup> And these wage increases were followed by a period of inflation, which eroded real wages, and then by recession, which threw many workers out of work.<sup>8</sup> It is perhaps not so surprising that Italian workers have learned to defend themselves against these two dangers through wage indexation and job security; the surprising thing is, rather, that this is regarded as something anomalous and shocking by the rest of the capitalist world.

Even today, however, and even for those workers protected by the *scala mobile*, life is not as rosy as IMF reports would suggest. For example, in 1976, when the government proposed that indexation be partially suspended for the more highly paid workers, i.e. those earning more than 6 million lire per year (about \$7200), Confindustria, the employers' organization, objected that this would affect only about 10 percent of all Italian workers and thus do little to reduce labor costs.<sup>9</sup> Employers have attempted to recoup labor costs by intensifying and speeding-up the labor process, which has resulted in highly dangerous working conditions in many factories and the highest industrial accident rate in the Common Market.<sup>10</sup>

Despite the recent wage gains and rising unit cost of labor, workers' take-home pay is still lower in Italy than in many other industrialized countries. The gap between the cost to employers and money in the workers' pockets is accounted for by very costly state-run social services which until 1977 were largely financed by employer contributions.<sup>11</sup> The average Italian family has to spend 50 percent of its income on food.<sup>12</sup>

And it should be emphasized that the working class bears a disproportionate share of the state's tax burden. Italy only recently took steps to modernize its tax-collection system, which was antiquated in a quite literal sense: until 1976, taxes were collected through tax-farmers (factors) as in ancient Rome. The major reform was the institution of collection of taxes at the source, i.e. payroll deductions from salaries and wages. This means that taxes are now collected

most efficiently from the poorest section of the population. Tax evasion, considered a sport and almost a source of pride among the middle and upper classes, was estimated to have cost the state approximately 10 trillion lire (\$12 billion) in 1975, equal to the state deficit that year. The culprits were described by the *Financial Times* as mostly industrialists, the commercial establishment, and the self-employed.<sup>13</sup> The consequence is that if a worker "smokes, drives a car, uses electricity and a telephone, he is paying more taxes each year than a society doctor earning 50,000 British pounds."<sup>14</sup>

This, then is the class which has been publicly blamed for causing Italy's economic woes. It is not surprising that working men and women have repudiated the accusation and resisted attempts by the Government and the IMF to roll back the gains they been able to make in recent years. Nor is it surprising that the rank-and-file have increasingly refused to go along with union leaders and the Communist Party's calls for restraint in the service of a national austerity program.

The working class was not, of course, the sole cause of the crisis. Before it became fashionable to blame the *scala mobile* for Italy's economic problems, there was general agreement that the public deficit and the corrupt and inefficient structure of government was the sector most in need of reform. As the lira began its drastic downward slide in 1976, London's *Financial Times* opined that

the root of Italy's problems, political as well as economic, is that it has been inadequately governed since the war. The oil crisis has exposed the consequences of the Christian Democrats's failure to modernize themselves or the machinery of government during the 30 years they have held office.<sup>15</sup>

The state deficit has been a target of nearly all of Italy's major foreign creditors. A condition of the first medium-term loan from the EEC, in 1974, was a government promise that the state deficit would be kept under 8 trillion lire. In reality it came to 13,500 billion.<sup>16</sup> And it was reported that the main reason the IMF refused to give support to Italy during the lira crisis of early 1976 was the chaotic state of government accounts and the Fund's lack of confidence in the government's ability to stay within any promised budgetary limits.

The Governor of Banca d'Italia, Paolo Baffi, stated in his annual report for 1975 that in that year alone

the Treasury deficit—which does not include deficits of local authorities or nationalized industries—amounted to 6 percent of net national income and absorbed one-third of all household savings.<sup>17</sup>

Public expenditure goes not only to current expenses of running the cumbersome and inefficient state bureaucracy, the Post Office, etc., but also pays for transfer payments (such as pensions and disability payments), and for subsidies to industries in the State-controlled sector. The politically significant aspect of this part of inflation/balance of payments problems is that the Christian Democratic party has used the government budget as an instrument of patronage and a probably essential means of keeping itself in power.

It is common political practice to allot government jobs as patronage, but probably more common in Italy than in other Western countries. The Communist Party has attacked this practice of the ruling party, and was reported to have refused a recent offer from the Christian Democrats to accept a share of senior bank officials' posts—traditionally political spoils—demanding instead that appointments be made on the basis of professional competence. "The atmosphere immediately become icy," *The Times* of London reported. "The Christian Democrats are refusing to consider any change of habits."<sup>18</sup>

Transfer payments—pensions, social security, and disability payments—are also used to political purpose by the Christian Democrats. Various authoritative press reports indicated that pensions had been used to bring the salaries of agricultural workers, traditionally Christian Democratic voters, into line with those of better-paid factory workers." The contribution of tax evasion on the part of the professional and upper classes to the budget deficit has already been mentioned.

The role of the state-controlled industrial enterprises deserves special mention here, as they are an important but poorly-understood component of the the Italian political scene. Government participation in industry is exercised through a few wholly public-owned holding companies, which in turn hold shares in individual companies in which private capital also participates. The first, and still largest, of these holding companies, Istituto per la Ricostruzione Industriale (IRI), was formed in 1933 when the Fascist government was forced to take over the shares of the three large banks and *their* company holdings to rescue them from bankruptcy. The government's intent at the time was to sell back to private enterprise these companies as soon as possible, and it was not until 1937 that it resigned itself to more permanent responsibility for the orphan enterprises—a decision described as "perhaps the most absent-minded act of nationalization in history."<sup>19</sup>

In postwar Italy the state holding companies gained new prominence, and were assigned a more positive role in the reconstruction of Italian capitalism. They continued as well the inherited tradition of rescuing the floundering private enterprises from bankruptcy, and between the takeover of existing unprofitable enterprises and the investment in new factories grew to a prominent position in the national economy. It is estimated that nationally-controlled industries now account for as much as 55 percent of industrial production. Because they were under government direction (although the

channels of control appear to be ambiguous and incomplete) they were assigned positive public functions, notably deliberate investment in the depressed Mezzogiorno (south) and the strengthening of industries considered vital to the economy, notably steel and shipbuilding. Ente Nazionale Idrocarburi (ENI), the oil and gas holding company formed in 1953, played a path-breaking role under its visionary direct Enrico Mattei: ENI is credited with the rapid development of Italy's natural gas reserves, the import of cheap Russian crude oil, and the negotiation of path-breaking contracts with Middle Eastern oil exporters in defiance of the oligopoly control of the major oil multinational corporations.

These public-controlled enterprises raised a large proportion of their capital through borrowing, and in the euphoric atmosphere of the "economic miracle" they were frequently credited with enjoying the best of all possible worlds: the capitalist efficiency required by responsibility to capital markets from which they borrowed, and the fulfillment of public functions which fully private corporations were unwilling to touch.

As the economic miracle receded and the nation's structural problems became more apparent, it also became clear that this assessment of the role of public enterprises was far too sanguine, and that the opposite could be argued as well: that the public enterprises had been, all the time, dependent on public subsidies but only imperfectly responsive to public control and social needs. As early as 1965 Andrew Schonfield had seen through the myth of financial efficiency through market discipline, by pointing to the key role of publicly-guaranteed borrowing as well as direct public subsidies. "The sheer size of [IRI], which allowed profits in one part to be set off against losses in another, added to the backing of the state, which meant that it would be able, in an emergency, to fall back on public funds to meet its obligations, made it a safe vehicle for investment."

The state also contributes more directly to IRI's investment program—recently at the rate of some 50 billion lire a year—but does not demand any share of the income it earns.

. . . The state's financial contribution may be regarded as a means of increasing the return on capital available for distribution to IRI's private investors. At any rate, it is evident that if the group were not in the fortunate position of having one shareholder, responsible for contributing a third of the equity capital, who was ready to go without any dividend, there would be less left over to distribute to other investors. In practice the shareholders and bondholders in IRI companies, although they have done quite well, generally receive little more than the going rate of return in Italy on investments of this type. So perhaps the proposition ought to be put the other way about—that if the state had not been prepared to play

the part of the rentier who never squeals, if would not have been possible for IRI to obtain large amounts of money that it needs for investment from the ordinary capital market. The terms that it would have been able to offer, without this public support, would not have been sufficiently attractive to tempt the private investor.<sup>20</sup>

While the government was guaranteeing, through subsidies, the viability of these enterprises, it was also using the system as another vehicle for political patronage. In 1956 the Christian Democratic leadership decided to strengthen its political control over the state-controlled industries and banking system, in response to growing electoral strength of the Left. In that year it created the Ministry of State Holdings and split the state companies away from Confindustria, the employers federation, which thereafter represented only the private entrepreneurs. Party stalwarts were appointed to the top management positions and the industries were forced to rely on the politically controlled banking system for finance, as stock market operations were strictly limited. It is even charged that the direction of state investments to the Mezzogiorno was inspired by party political, rather than by national and social, objectives: the South is a traditional stronghold of the Christian Democrats.<sup>21</sup>

The state-controlled industries lost efficiency as the party's grip on them tightened, and in recent years they have fallen into crisis as the economy of the nation experienced difficult times. The crisis of the publicly controlled industries has been manifested in managerial revolts and in heavy financial losses. Several chairmen of state corporations have been exposed as involved in corrupt practices, including the Lockheed affair. As a result of these scandals and the changing balance of power in Italy, the Christian Democrats' control over these enterprises is gradually being eroded. Non-party managerial personnel are emboldened to protest publicly against the leadership of party hacks, and they are enthusiastically supported by the Communist Party's campaign to halt the government party's patronage control of the enterprises. In fact, the Communist Party finds itself in the paradoxical position of opposing any further nationalizations in Italy, because it does not care to augment its opponents' patronage machine.

The financial losses of the state-controlled companies have imposed a heavy burden on the state treasury in recent years. EGAM, the holding company for mining, metallurgy, and machinery, was perhaps the most spectacular case of bankruptcy: it was calculated that EGAM lost 1,250 billion lire in the three years 1974-6 and that it would have been cheaper to pay the workforce to stay at home.<sup>22</sup> Alfa Romeo, an IRI company, loses 1 million lire (more than \$1,000) on every car which it produces in its Alfa Sud plant in Naples.<sup>23</sup> And operating losses of the IRI group amounted to 445 billion lire (about \$503 million) in 1976.<sup>24</sup>

The government's response to these losses has been twofold. In the first

place, as reported in the *International Herald Tribune* (with a supreme illogic that may be attributable to the government rather than the newspaper), "As a sign of its determination to curb the expansion of the wasteful government-owned sector of the economy, the government is committed to sell some *profitable* nationalized companies to private investors." (My emphasis.) With much better logic, the unions were protesting "making profits private but leaving debt public."<sup>25</sup>

The more usual government response, however, has been to continue assuming the burden of financial support for industries which can't make it. The *dissolution* of the insolvent EGAM proved particularly expensive, and the government had to evade IMF budgetary guidelines in order to allocate the necessary sums, which were estimated to total 1,500 billion lire. And at Christmas 1977, in the middle of a political crisis occasioned by a struggle over the budget deficit, the government announced an emergency allocation of 400 billion lire to "important companies in distress, to enable them to pay December wages and Christmas bonuses, and to meet urgent commitments to suppliers."<sup>26</sup>

The irony in this situation is that the government deficit could not be cut—more than that, its astronomical growth could not be limited—without endangering the already fragile base of electoral support for the ruling Christian Democratic party. This dilemma faced not only the Italian party, but its international bankers, the IMF, the EEC, and the German and U.S. governments. Control of the government budget was a goal second in importance only to an effective dismantling of the wage indexation system, but if carried out it was bound to weaken the Christian Democratic party and thus strengthen its major opponent, the Communists. We will see in a later section how this worked out in practice.

Restrictions on bank credit are a third means of attempting to control inflation, and the consequent balance of payments deficit. Because the unions are defending the workers' standard of living against deterioration, and the government deficit has proved intractable for political reasons, the interest rate and monetary restrictions have been the chief tools available to deal with the deficit. Credit restriction measures were taken at the behest of the IMF and the EEC, with the expected deflationary effects. An editorial in the *New York Times* noted that the "stringent deflationary conditions" imposed in connection with the 1974 German and EEC loans were

so "successful that Italy was running a surplus in its balance-of-payments and even paying back the German loan, aided by a remarkable performance in exports to the oil-producing countries. But the financial "success" was a socio-economic-political disaster; a sharp drop in industrial production brought the unemployment and job insecurity that aided the Communists in last June's elections."<sup>27</sup>

Following the lira crisis of early 1976, bank credit again bore the brunt of adjustment: the Central Bank discount rate was raised, in a series of steps, from 6 percent in 1976 to 15 percent in October of the same year, and commercial lending rates rose to near 20 percent—at that time the highest interest rates in the industrialized world.

Another important source of pressure on the balance of payments is capital flight. Any available figures for this are necessarily guesses, but the total sums involved are large. One number mentioned for the total amount of Italian capital held in foreign countries is \$25 billion, which is well over three times the enormous, and exceptional, trade deficit of 1974.<sup>28</sup> Customs experts estimated that 2,000 billion lire of the 1973 trade deficit of 3,500 billion lire could be accounted for by capital flight.<sup>29</sup>

While this flight from the lira may be caused in part by economic calculations of the weakness of the currency, there is an important political element in it, with the ebb and flow of funds directly related to the expectations attached to election results. This relationship can be expressed in one newspaper figure: *The Times* of London estimated that nearly \$1 billion had flowed *back into Italy* in the two weeks following the general election of June 1976—after predictions of a Communist victory in the elections proved wrong.<sup>30</sup>

There are two main channels for capital flight. One is the physical haulage of the currency in suitcases over the northern border with Switzerland, where Italian-speaking bankers in the cities of Lugano and Ticino make things convenient for their Italian customers. There are laws against this, but these laws are not recognized in Switzerland. In any case such laws can hardly be enforced effectively in an open capitalist economy, and are opposed as exchange controls by the international institutions charged with maintaining open borders for the flow of capital. One law aimed at limiting capital flight is the rule limiting the amount of cash which can be drawn in foreign currency for travel abroad. In 1976 this amount was set at 500,000 lire per person per year. This limit was easily surmounted, and even exploited, as described in the *Sunday Times* of London:

Currency touts even organize coach loads of peasants to come to Rome for a day and claim the 500,000 lire of foreign currency they would be allowed to take out of Italy as bona fide tourists. The touts pocket the currency, the peasants get a day out, even an audience with the Pope, and everyone except the Central Bank is happy.<sup>31</sup>

In late 1977, even as the nation was coming to a government crisis over the issue of the IMF-imposed austerity program, the government raised the limit of foreign currency that could be drawn each year from 500,000 to 750,000 lire. It may be surmised that this was done in response to IMF pressures to dismantle this control, though domestic interests may be sufficient to explain the move.

Officially, it was stated that the decision was taken because of the improvement in the balance of payments.

Another important channel for capital flight—just as in many Third World nations—is the falsifying of trade invoices. Italian traders, with the collaboration of foreign suppliers or customers, prepare inflated invoices for the goods they import or underpriced ones for exports, then collect the difference outside the country and leave it abroad. Also, in December 1975-January 1976, according to the *New York Times*, Italian exports to Germany had risen by some 30 percent—but the proceeds from the sales frequently did not even enter Italy but were simply banked in Switzerland.<sup>32</sup> This practice naturally distorts trade figures as well, making an accurate analysis of the situation difficult.

The Government has made efforts to stem this outflow. In May 1976 it passed a law against capital flight, with a generous period for amnesty appended in order to encourage repatriation, but by the end of the year it had netted only 514 billion lire. The high interest rate policy had as one of its intended effects the attraction back into Italy of capital invested abroad by Italian residents. And when importers were hit by the 50 percent import deposit requirement in 1976, the government later added a sweetener designed to smoke out capital exports made through false invoices: it decided to allow holders of foreign currency deposits to use those deposits to pay for imports without passing through exchange controls and making the 50 percent deposit.<sup>33</sup> But all these policies had only a marginal effect so long as the incentive—Italy's political and economic weakness—and the opportunity—the basic openness of the economy—remain.

The major bilateral and multilateral creditors which have made large amounts of money available to the Italian government have their own reasons for doing so. The major official creditors include, besides the International Monetary Fund, the European Economic Community, and the West German Government. Additionally, funds have been made available though "swaps" arranged with U.S. Federal Reserve System and the Swiss National Bank. There may be shades of difference in the motives of these various creditors, but they all belong to the Western capitalist system and in large outline their motives are the same. The major goals of their rescue efforts were the following.

- To preserve Italy as a market for their own exports or those of their major backers (in this case of multilateral institutions). This major objective subsumes two instrumental aims, namely:
- To defend the value of the lira—an objective which has had to be at least partially abandoned;
- To prevent the imposition of exchange and import controls which would cut down on Italy's imports from suppliers and provide a dangerous precedent for protectionism for other troubled economies.

And in order to rectify the nations's balance of payments deficit without resort to galloping lira devaluation or direct controls,



- To impose and enforce limitations on wage rises, the budget deficit, and monetary expansion, i.e., to force a deflationary adjustment in preference to exchange rate changes or protectionist devices.

In addition to these politically sensitive economic objectives, however the major creditors also had more directly political objectives. These are basically two:

- To prevent the wage gains of Italian workers from becoming a standard for workers of other nations, including those of the major creditor countries, and,
- To prevent the Communist Party of Italy from gaining a formal position in the government cabinet of that country.

It is the last-named objective—the prevention of power-sharing by the Communist Party—which seemed to be the dominant motive. In what follows we shall trace the creditors' desire to prop up the ailing Christian Democrats at almost any cost, including the sacrifice of most of their proclaimed economic objectives for Italy.

Italy is governed by a parliamentary system, with cabinets that throughout most of the postwar period have been coalitions dominated by the Christian Democrats. In 1948, the Christian Democrats, with strong U.S. financial and propaganda support, gained a victory over the left parties which left it free to pursue an open-economy export-led model of industrial development. But in the intervening years there has been a slow but steady shift of the Italian electorate to the left parties. In 1962, in order to form a government, the Christian Democrats were forced to make an "opening to the left" by agreeing to share power with the Socialist Party. The shift did not stop there. The government was brought down by the withdrawal of the Socialist Party at the end of 1975, and in the subsequent June 1976 elections the Communist Party won 34.4 percent of the vote to the Christian Democrats' 38.7 percent, with the share of the other parties too small to make a coalition excluding the Communists feasible (additionally, the Socialist and Republican parties were insisting that no effective government without the Communists was possible, and indicated that they would not participate in such a government).

The Christian Democrats were faced with an impasse: they could not govern the country in the face of such a numerically powerful opposition. The Communist Party showed itself eager to cooperate and to accept a share in government, though a coalition government of the two inherently hostile major parties seemed to present an insoluble contradiction in itself. In any case, the Christian Democrats refused to consider such a compromise with their historic enemy—and they were firmly backed by their international supporters. Only days after the election in which the Communists made their great gains, the leaders of the United States, France, Germany, and Britain agreed at their economic summit meeting in Puerto Rico that they would withhold aid to Italy if the Communists were permitted to join the government. This purportedly secret

pact was subsequently leaked to the press by West German Chancellor Schmidt, and not denied by the other parties to the conversations.<sup>34</sup>

The result of Christian Democrats' firmness, and the Communists' eagerness to compromise and demonstrate their responsibility, was a peculiarly Italian compromise in which the Communist Party agreed *not* to bring the new, one-party Christian Democrat government down with a no-confidence vote. What the Communists gained in exchange for this passive support is not clear; according to their leftist critics, not much.

The PCI backed down on almost every issue and abstained on most major votes in parliament in the name of preserving a dialogue with the DC . . . the Christian Democrats have governed pretty much as they please, and were able to enact significant measures that strengthened the position of the bourgeoisie, re-established to some extent the political control of the DC, and set back the working-class movement. The position of the left has been weakened.<sup>35</sup>

The electoral gains of the Communist Party brought the political question to the fore in discussions of foreign aid from the IMF and the EEC. In order to understand the subtle interplay of political and economic motives on the part of creditors, and constraints on the options available to the minority and caretaker governments which have ruled Italy, let us examine more closely the support operations undertaken abroad during the lira crisis of 1976.

Before the official foreign exchange market closed on January 21, the authorities spent \$516 million of the country's limited foreign exchange reserves in an attempt to support the lira's exchange rate. This course was soon abandoned because of its heavy cost, but the apparent motive of the authorities in thus shoring up an exchange rate which was technically supposed to be "floating" was the fear that rising import costs consequent on the lira depreciation would be reflected almost immediately in higher wages through the *scala mobile*. The Banca D'Italia, in its report for the year 1974, explained its heavy support of the lira in that year in these terms:

Correction of the balance-of-payments disequilibrium could not have been entrusted, in the first instance, to exchange rate changes: with the inflation rate already high and given the low price elasticity of most of our imports, further depreciations of the lira would, over the short run in particular, have helped to speed up the rate of inflation, rather than improve the balance of payments.<sup>36</sup>

German banks intervened for a few days, buying lira to support the price. Their intent was to protect German and other EEC exports against the advantages

which the Italian products would gain if the lira continued to depreciate. An example of this, frequently mentioned in press reports, was the following: if the lira dropped from 245 to 281 per Deutschmark, the price of an Italian automobile on the German market would fall from DM 10,000 to DM 8700. The Germans soon abandoned this support operation, however, probably because it was proving too expensive to them.

This run on the lira did not make sense in terms of the recent trends of economic indicators: after the massive deficit of 1974, the 1975 deficit was modest, indicating that the adjustment was being made to the permanent large increase in oil import prices. The problem lay with the low level of reserves and the high level of foreign debt, and with the political crisis and the prospect of new elections in 1976.

The reserve position of the Banca D'Italia and the Foreign Exchange Office deteriorated from L 248 billion in assets at the end of 1974 to minus L 1,367 billion in assets at the end of 1975. The problem was compounded by the fact that a large proportion of Italy's reserves was held in gold bullion, which was effectively frozen since at that time the official price (that at which governments could buy and sell gold) was only one-third to one-quarter the market price. In 1974 this problem had been handled by an agreement that the "frozen" gold could be used as *collateral* for a loan from the West German Bundesbank at the market value. The fall of Italy's reserve position in 1975 was due not only to the trade deficit, but to large *repayments* of foreign loans contracted during the 1974 crisis.

Italy's official external indebtedness in early 1976 was large (though not as large as that of Brazil or Mexico), amounting to approximately 15 billion dollars. There were two main components of this debt; about half had been contracted on the Euromarket by state-owned enterprises and municipalities on behalf of the monetary authorities. This type of borrowing had peaked in mid-1974 and declined somewhat since then; it was being repaid on schedule. The other half of the debt had been contracted directly by the central monetary authorities for defense of the lira in 1974. This included \$2 billion from the Bundesbank, nearly that much from the EEC, and close to \$3 billion from the IMF, where Italy had drawn the maximum possible through its regular tranche facilities and through the special oil facility. Outstanding debt had declined slightly in 1975. In 1976 Italy was due to repay \$3.3 billion in capital and interest.

Though the debts were heavy, the situation might not have been critical had there not been a publicly announced shift in the attitude of the U.S. Comptroller of the Currency on the wisdom of further private bank loans to Italy. The Comptroller's office found that some banks had exceeded the statutory limit on loans to one borrower by lending to several different public entities whose loans were all guaranteed by the Italian government. The consolidation of loans for this purpose was a new policy and gave the the impression that the

Comptroller's office considered Italy a poor risk for further loans. The Director-General of the Bank of Italy said that the attitude of the Comptroller had "objectively created an atmosphere of uncertainty about the international financial credibility of our country,"<sup>37</sup> and the leftist parties suggested that Italy's monetary difficulties were provoked as a means of preventing the formation of a government including Communists. According to one London newspaper,

Some "hawks" abroad have even argued for "taking Italy out," meaning forcing a really crushing anti-inflation policy on it by simply refusing sufficient new loans.

The speculators soon got the message and the illegal lira trail across the border to safe havens in Switzerland soon led to an all-out currency crisis.<sup>38</sup>

Although no proof has come to light that U.S. authorities deliberately provoked a lira crisis to remind Italy of its dependence on the good will of foreign creditors, the theory is not too farfetched when compared to similar political pressures which become a matter of public record in subsequent months. And certainly the labelling of any borrowing country as creditworthy or not is largely a self-fulfilling prophecy: a nation deemed "creditworthy" will get more credits and be able to pay back its old debts, and the opposite will be true for a country whose debts are labelled dubious.

The first rescue operation for the lira occurred while the exchange markets were still closed in February, when the EEC agreed in principal to guarantee a billion dollar loan to be raised on the Eurocurrency market by private European banks. The loan carried conditions described as "draconian" and "without precedent," placing Italy under close surveillance, with regular consultations and periodic examinations of conditions. Italy agreed to hold its global public spending, the expansion of internal credit, and the Treasury deficit to predetermined limits.<sup>39</sup> In addition Italy promised it would introduce "no unilateral commercial or financial measures to limit imports or subsidize exports."<sup>40</sup> The conditions may have been without precedent for an EEC-guaranteed loan, but they would have been quite normal for an IMF loan. In order to fulfill these conditions, the government announced in mid-March that it was raising taxes on gasoline, automobiles, drinks, entertainment, and income from interest. It was at this point also that the bank rate was raised from 8 to 12 percent—at that time the highest rate in the industrialized world. Though it had been widely expected that there would be some import curbs, these would have hampered trade with Italy's EEC partners and thus "violated the spirit" of the agreement on the loans.<sup>41</sup>

In the meantime the authorities were also negotiating for an IMF loan. Since Italy had exhausted its drawings under the regular tranches and the oil facility, it

aimed this time at the additional \$530 million to which it was entitled under the recently concluded Jamaica agreement to raise special drawing rights allocations by 45 percent. Negotiations in the crisis month of March 1976 were, however, inconclusive. The Fund was reported to be unconvinced that the Government was sincere in promising to limit public sector spending—a promise which the EEC had accepted.

The granting of the EEC billion-dollar loan did not succeed in stopping the run on the lira. Two months later, in desperation, the Italians imposed a 50 percent import deposit requirement. Anyone who wished to import goods into Italy would, under the requirement, have to deposit 50 percent of the amount of purchase in a non-interest bearing government account for a three-month period. This measure had the effect of raising the price of imports by 2.5 percent (calculated in terms of interest foregone) while leaving the export rate of exchange unchanged. The measure brought an immediate halt to the slide of the lira exchange rate—in fact the lira promptly improved by 4 percent, more than making up the 2.5 percent penalty to importers.

The import deposit was a direct violation of the agreement reached with the EEC in exchange for its loan guarantee, that Italy would impose no restrictions on trade or capital movements. More than that, it was an attack on the free trade principal which was one of the basic tenets of the Common Market.

Italy did not impose the deposit requirement without the approval of the European Commission, but the approval was granted grudgingly, “only at the end of an agonized late-night meeting and last-minute efforts to get the Italian government to change its mind.” Here too the political considerations were paramount:

What probably decided the Commission in acquiescing—with obvious ill grace—was the knowledge that the devaluation of the lira, by forcing up import prices, was fueling something close to hyperinflation in Italy. This, they knew, might finally seal the fate of the Christian Democrats . . . [They endorsed the policy, in effect, in order] to keep the Communist Party at bay in Rome.<sup>42</sup>

The extent to which this acquiescence was a breach in fundamental principle was underlined by the vehemence with which the Commission made it clear that its decision was not to be taken as a precedent by other countries (such as Great Britain) which might be tempted to impose similar trade barriers in order to protect the balance of payments or a failing sector of industry.

The International Monetary Fund, when asked for a *post facto* approval of the Italian action, also acquiesced grudgingly and with one eye riveted on the June elections.

In July, shortly before the import deposit requirement was scheduled to expire, Italy asked for and received approval from both the EEC and the IMF to

extend the scheme for another three months. When the Italians sought a further six-month extension that autumn, however, the Commission agreed only on the condition that the deposit be scaled down gradually (45 percent after October 15, 40 percent after November 30, etc.) until it would be abolished completely by April 15, 1977.

In October, however, the Italians dropped another bombshell in the lap of the European Commission. Without seeking advance approval, they imposed a 10 percent surcharge on all foreign currency transactions, which was originally announced as a temporary measure only, to expire at the end of 15 days. In so doing Italy invoked Article 109 of the Rome Treaty which allows an EEC member state to take “the necessary protective measures” when “a sudden crisis in the balance of payments occurs” without prior consultation with its European partners. The Commission “regretted” the surcharge but again acquiesced grudgingly, announcing that it would not condoned the surcharge beyond the 15 days stipulated in the announcement. When the 15 days were up, however, the surcharge had to be extended and the Commission was helpless to object, “partly because no one in Rome would really listen and partly because no one in Brussels has any better idea about what should be done.”<sup>43</sup>

Meanwhile negotiations with the IMF dragged on. Hints were dropped that the Fund might even agree to raise the \$530 million sum under discussion to a “supertranche” drawing of \$1 billion. William Simon, the U.S. Treasury Secretary, said in an interview with *Espresso* that the U.S. and the IMF would measures to stabilize the economy. He apparently referred to the austerity measures to stabilize the economy. He apparently referred to the austerity program which the Andreotti minority government announced later that month.

In that austerity program, telephone rates were raised by 25 percent and electricity prices 15 percent. The Government also proposed that wage indexation payments for higher-paid sectors of the work force—those earning over eight million lire a year (about \$9600) should be “frozen” by compulsory investment in government bonds, and that half the increase for those earning between 6 and 8 million lire should also be frozen. Both the rise in utility rates and the partial wage freezes were taken in order to comply with requirements for the IMF loan which had not yet been negotiated.

Thus began the last stage of long-drawn-out bargaining between the Italian government and the IMF—bargaining which was not to be concluded until the following April. The distinctive feature of this stage of the bargaining was that the Fund’s hostility to the wage indexation system—the *scala mobile*—had come to the forefront of issues of contention, whereas before it had been only a minor theme. Since the unions were determined to defend the gains they had won in early 1975 through the revision of the indexation system, believing these gains to be fundamental to the preservation of the living standards of their members, the stage was set for an inconclusive conflict: irresistible force versus immovable object.

From the point of view of the Fund, the *scala mobile* represented an obstacle which frustrated the effect of all the anti-inflationary techniques in its arsenal. If the lira were devalued, the higher cost of imports would be immediately reflected in higher payments to workers through the *scala mobile*. If utility prices were raised the same thing would happen; if indirect taxes were raised in order to balance the government budget, the workers' incomes would be protected against erosion from that direction as well. This impasse, of course, exposed the fact that IMF stabilization programs were necessarily directed against the working class of the country—that an anti-inflationary program which did *not* attack the working class was outside the realm of the Fund's ingenuity. For this reason the *scala mobile*—the wage earner's protection against inflation—had to be breached somehow in order to bring real incomes down. The basic premise was that the workers had to be made to pay for the contraction of the system of capitalist trade and exports.

The climax to the long-drawn-out negotiations with the IMF came in March 1977. By that time not only the \$530 million "extended facility" from the IMF was at stake, but also a new loan which the European Commission had agreed to guarantee on Italy's behalf (to compensate for funds from a previous loan which Italy had to repay to Britain, which was having its own exchange problems). Tired of imposing its own conditions on Italy only to see them flouted, the Commission decided that this time it would ride the coattails of the Fund in the hope that Fund requirements would carry more weight.

Curiously enough, however, the negotiations came to a climax at a point when it was not at all clear that Italy needed the extra money. The severe exchange crisis was already a year in the past; and "U.S. and European banks were lending \$3 billion to Italian clients while the IMF was haggling over the \$522 million credit."<sup>44</sup> The IMF credit would provide only 4 or 5 days' ammunition for the Banca D'Italia in case of a run on the lira and would not even cover the cost of imports for one week, and for this paltry sum (commented *Neue Zürcher Zeitung*) "the Italian government has cooled its heels for months in the waiting room of the IMF, and allowed the Fund to prescribe just how it must behave."<sup>45</sup> The Fund itself was reported to be considering yet another postponement of negotiations, "since it is a relatively small loan of which Italy is in no critical need."<sup>46</sup>

Here again political considerations were inextricably linked with the economic. The Andreotti minority government, caught between the international organization which had demanded an assault on the *scala mobile* and the unions which had sworn to resist any such attack, was not in such a weak position as it appeared. Or more precisely put, its very weakness could be put to good political use.

For one, the Italian government and industrialists hoped to use the IMF demands as leverage to budge unions from their entrenched position on the *scala mobile*, a task which they were unable or unwilling to undertake on their

own responsibility. Guido Carli, the former head of the Bank of Italy and now direct of Confindustria, the industrialists' organization, put it most bluntly: "The function of the IMF loan really is to focus attention on what has to be done. What is being talked about, and openly now, is the restricting of incomes in real terms, and that is always a difficult political matter."<sup>47</sup> What in a purely domestic context might look like a naked assault on the recently-won gains of the working class (and in fact was just that) could, when dressed up in the form of IMF recommendations, be justified as a regrettable necessity to which the whole country must submit in order to keep the confidence of foreign creditors and investors.

On the other flank, the Andreotti government had an even stronger card to play. His party represented the only bulwark against a Communist Party presence in government, and the fragility of its political dominance could only be a more persuasive argument for the need of foreign assistance. Prime Minister Andreotti sought the support of the two key creditors, the United States and West Germany, in advance of the final negotiations with the Fund.

Sig. Andreotti is banking on his understanding with both the Washington and Bonn governments to secure this latest Italian loan from the IMF. He has already discussed the position at length in Bonn with Herr Helmut Schmidt, the Chancellor, and here in Rome with Mr. Walter Mondale, the U.S. Vice-President.

In both cases Sig. Andreotti emphasized that the future of his minority government was linked to a successful outcome of the protracted negotiations with the IMF.<sup>48</sup>

If the conditions imposed by the IMF were too difficult, the Christian Democrat government might fall, as it had in 1974. On the other hand, if the IMF failed to approve the credit this time, this might precipitate another economic crisis just because the public disapproval would be so obvious.

What the government proposed to do to meet the IMF conditions was not a direct assault on wages, which they realized would be impossible given the strength and determination of the unions. Rather they had come up with an indirect attack in a complicated solution which illustrates the constraints with which they had to deal. The goal was to reduce the total wage bill of Italian industry. A direct limitation on wages, as we have noted, was impossible. A State subsidy to industry was considered, but this apparently was opposed by the IMF. "Additionally the EEC Commission in Brussels is believed to have warned the Rome government privately that a direct Treasury subsidy might be in breach of the Treaty of Rome, since it could represent an artificial support for export prices."<sup>49</sup> (Lower real incomes for workers presumably meant the *natural* support for export prices to which the artificial is contrasted.)

The solution finally proposed was this: that the Government should assume responsibility for a large part of the health and social security burden heretofore



carried by the employers themselves, thus reducing the total wage bill of employers without attacking workers' wages or benefits. However, this would mean an increase of L 1.3 trillion in the expenses of the public budget, and the control of the budget deficit was the other chief demand of the IMF. In order to get around *this* impasse, the Government proposed to meet the new public expense by raising indirect (value added) taxes on a variety of consumer items.

The political issue then became the question as to whether these increased taxes would be "sterilized" by being excluded from computation of the next inflation adjustment of wages under the *scala mobile*. The unions refused to countenance this, realizing that if this were done their membership would end up paying for the wage bill reforms and that the entire *raison d'être* of the *scala mobile* was under attack.

The government also proposed to penalize companies which awarded workers benefits above those negotiated in the national agreements for each sector, by refusing to give such companies the partial reimbursement of social welfare contributions. The unions also declared their hostility to this attempt to throttle plant-by-plant bargaining, and expressed their opposition by country-wide strikes lasting 4 to 24 hours. At the same time, however, the union leadership declared themselves prepared in principle to negotiate some compromise solution with the government, but tried to tie this to demands for a more direct role in the formation of overall policy, including the extent and type of state sector investments, and urged measures to reduce the level of unemployment.<sup>50</sup>

The climactic negotiations with the IMF in March turned out to be a comedy of errors. An unusual insiders' view of what happened surfaced some eight months later, published in *Europa*,<sup>51</sup> an international supplement to major European newspapers, and written by Natale Gilio. According to this account the IMF chief negotiator, Alan Whittome, a United Kingdom national, reached agreement on conditions for the letter of intent which Italy was to submit, stating the measures that would be taken in exchange for IMF support. But the Italian negotiators with whom Whittome dealt on this occasion, it would appear, had been making concessions on the two sensitive issues outlined above, sterilization of new taxes from the *scala mobile* and the penalizing of plant-by-plant bargaining, without any consultation with the unions or cognizance of the unions' bitter opposition to these points. Gilio attributes this mix-up to a communications breakdown which in turn was caused by a feud between Emilio Colombo and Gaetano Stammati, the past and current Treasury ministers. Be that as it may, the points at issue were real ones, tenaciously fought on both sides, and a communications mix-up could be at most an epiphenomenon. It may even be that the so-called "mix-up" was actually a face-saving cover, disguising the defeat eventually suffered by the IMF.

For a defeat—on the economic plane, at least—it certainly was. Or we might say, considering the time of year, an April Fools' joke. For when Whittome

returned to Washington, already prewarned that some revision of the Letter of Intent would be required after further negotiations with the unions, he was quickly followed by Stammati. The Treasury Minister was coldly received by the IMF managing director Witteveen who grumbled about "these Italians who cannot keep their commitments." Stammati was indeed bringing the bad news that the government had been defeated by the unions on the two key points, the sterilization of tax increases from the *scala mobile* and the issue of plant-by-plant bargaining. Instead, the unions had accepted only a few minor alterations to the weightings of the cost-of-living "basket" on which the escalator payments were based—newspapers, urban transport, and electricity charges.

Some left-wing critics of the unions and of the Communist Party of Italy saw these concessions as a defeat for the working class<sup>52</sup> which provides a dangerous precedent for future bargaining. The fact remains, however, that it was the IMF that was defeated in this round of bargaining. *Fortune* described the changes as "merely cosmetic"<sup>53</sup>; and *Euromoney* reported that "Virtually no renegotiation of [the *scala mobile*] has been possible, even under the 1977-78 IMF stand-by arrangement."<sup>54</sup> The reason the IMF caved in to this blackmail is also reasonably clear: it had no desire to embarrass the Christian Democratic government and make itself responsible for a shift to the left.

A decisive factor for the surrender of the IMF is supposed to have been the threat of Treasury Minister Stammati on his whirlwind trip to Washington that the Communists might enter the government in Rome if Andreotti's government fell on the issue of conditions for the IMF credit.<sup>55</sup>

The IMF was defeated not only on the issue of the *scala mobile*, but as the following months revealed, on the other promises made by Italy as well. It would seem that the government simply made commitments on the size of the budget deficit and on credit expansion and then made no visible effort to hold to the promised figures.

In July, when the next budget was drawn up, it was apparent that public expenditures would exceed revenues by a figure far above that agreed with the Fund, 14,450 billion lire. In late summer the IMF bowed to the inevitable and agreed to raise the allowable figure to 19,000 billion. Yet in November *The Times* reported,

Ministers now talk of a deficit of 26,000,000 million lire which they hope can be pared down to 19,000,000 million. Unofficial estimates forecast that the real deficit may run to more than 30,000,000 million lire

or more than twice the limit agreed only eight months earlier.<sup>56</sup>

A proposal on the part of the government to cut pension and disability payments had to be rescinded as a result of political pressure from within the government party itself, which as we have seen depends on pension and

disability payments to gain Christian Democrat votes. In August Alan Whittome, the Fund's European representative and victim of the April Fool agreement, sent a letter to Rome in which he warned against exceeding the public spending target. He recommended to that end that public agencies stop employing more people, that "useless" agencies be scrapped and that health schemes and hospitals be refused bank loans.<sup>57</sup> There has been no sign that the government heeded this advice. But it is hard to believe that the Fund itself put any great faith in government promises to balance the budget. The year before it had refused to grant a stand-by on the grounds that the Italian government had presented no plausible plan for controlling the deficit, and there were no indications that anything had changed in this respect when the Fund made its commitment in early 1977.

If one is to believe the IMF diagnosis of Italy's financial ills, the country should logically have been in crisis ever since the 1977 agreement, since the basic problems—the wage indexation and the budget deficit—continued uncorrected. And yet, astoundingly, the opposite has been the case. After a slowdown in economic growth to 2 percent in 1977 (caused by the use of the interest rate/credit control weapon, the only tool readily accessible to the authorities) a veritable renaissance took place in the following two years. In 1979 the nation's growth rate, at 5 percent, was called the highest in the EEC<sup>58</sup> and its balance of payments surplus of \$6 billion was the highest of all OECD member nations.<sup>59</sup> Net external assets of the monetary institutions (reserves minus external liabilities and compensatory loans), which stood at minus \$5 billion at the end of 1976, had burgeoned to \$25 billion in September 1979.<sup>60</sup> Two factors which help to explain the surprising showing are first, the exchange rate policy followed by the authorities and second, the importance of the unregulated, or "black" economy in export markets.

By stabilizing the lira exchange rate against the dollar when the latter was relatively weak, the authorities permitted a depreciation of the rate against the currencies of their major trading partners in Europe, which helped Italian exporters considerably despite the inflationary effects within the country. The exporters who benefitted most, it now seems, were the relatively small and unregulated entrepreneurs in the "black" economy which was discussed above in the section on nonunion, unprotected labor. Recent estimates indicate that this sector may be much more important than previously guessed (or captured in official statistics), employing perhaps one-third of the officially registered work force and producing up to 40 percent of GDP. These "black" industries are producing the type of goods—food, textiles, steel, machinery—which are Italy's fastest growing exports. Because these industries evade taxation, insurance and pension contributions, etc., they can hire "moonlighting" workers at competitive rates of take-home pay and yet keep production costs well below those of the large state-owned or regulated firms.<sup>61</sup>

Whatever the explanation of Italy's comeback, the IMF can take little credit.

And it seems likely that the gravity of the 1976 "crisis" was exaggerated if a turnaround could be achieved with so little structural change. Most probably politically-inspired capital flight, rather than high wage bills, was the real culprit in 1976. It is instructive to remember that the IMF was originally created to allow nations to meet such short-term crises without resort to painful adjustment process. In this case, however, the politically-inspired crisis became the pretext for a great deal of politically motivated intervention on the part of Italy's creditors. These creditors have succeeded in keeping the Communist Party out of a governing role, but the crisis of the political system in Italy shows no sign of abating.

### Notes

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## A Marxian Reconceptualization of Income and its Distribution

Stephen A. Resnick and Richard D. Wolff

Both Marxist and non-Marxist economic theories seem to share a concern with the determination and distribution of incomes in capitalist societies. However, the terms used to articulate such concerns—for example, "income, wages and profits"—have very different meanings within different theories. We believe that Marx laid the basis for unique concepts of these terms which connected specifically to his class analysis of the capitalist system. We also think that these class-linked notions of income and income distribution are radically different from and incompatible with the major non-Marxist theorizations. Thus, when Marxists miss or ignore the specific differences of Marxist concepts of income and its distribution, they thereby risk breaking the connection between their work and the rest of Marx's class analysis. This occurs precisely when they rely on non-Marxist notions of income and its distribution.

One barrier to working consistently and self-consciously with a Marxist class-analytic conceptualization of income and income distribution is the absence of a clear formulation of it. Another barrier is a clear statement of how Marxist and non-Marxist concepts of income and income distribution differ. We seek here to begin to overcome these barriers. Our concern is to so specify the complex linkages between income categories and class categories that Marxists will no longer collapse them together or pursue analyses that draw simplistic relationships between them. We propose to show how and why changes in income distribution, for example, do not necessarily imply any particular change in class relations. This is no minor matter, given the occasional tendency among Marxists to think that changes in income distribution either amount to or lead inexorably toward particular changes in class structures. At the same time, we want to formulate a Marxist theory useful for purposes of determining the precise relationship between class and income distribution within particular social situations. Such a theory should prove helpful to Marxists, both theorists and political activists (not necessarily different persons). It should enable Marxists to evaluate the likely consequences of social movements seeking changes in income distributions and determine the potential of transforming them into movements for changes in class relations.

In a well-known footnote to *Monopoly Capital*, Baran and Sweezy explained why they chose the concept of "surplus" rather than surplus value:

... we prefer the concept "surplus" to the traditional Marxian "surplus value," since the latter is probably identified in the minds of most people familiar with Marxian theory as equal to the sum of profits + interest + rent. It is true that Marx demonstrates—in scattered passages of *Capital* and *Theories of Surplus Value*—that surplus value also comprises other items such as the revenues of state and church, the expenses of transforming commodities into money, and the wages of unproductive workers. In general, however, he treated these as secondary factors and excluded them from his basic theoretical schema. It is our contention that under monopoly capitalism this procedure is no longer justified, and we hope that this change in terminology will help to effect the needed shift in theoretical position.<sup>1</sup>

Here we have some elaboration of a Marxist formulation of income distribution: their recognition that profits, interest, and rents *and* revenues of the state, church, circulation, unproductive workers all represent different claims on the prior existing surplus value. However, we do not agree with Baran and Sweezy's claim that Marx treated these latter revenues as "secondary factors" and "excluded them" from his basic analysis. Therefore, we do not think that an era of "monopoly capitalism" makes Marx's treatment no longer sufficient and sets the condition for the introduction of a new concept of "surplus."

We think that Marx's basic theoretical approach provides a way to make sense of the diverse incomes received by many individuals in capitalist society—whether or not monopolies prevail—in addition to the industrial capitalists and productive workers. Our plan here is to begin from and extend his approach so as to develop an elaborated Marxist class theory of capitalist society's income distribution. Toward that end, we find indispensable Marx's analysis in *Capital*, Volume 3, and also in parts of his *Theories of Surplus Value*. There Marx stressed, often with deft uses of ridicule and sarcasm, how politically motivated were the classical notions of income distribution and how important it was for Marxists to "see" income distribution differently.<sup>2</sup>

This Marxist way of "seeing" involves an understanding that productive labor is the source of surplus value and thus all claims on it. It is precisely this key notion that Baran and Sweezy recognized and stressed in their work. Thus, despite our differences with them, we share this basic Marxian view: distributed shares of already appropriated surplus value are received as incomes of many different groupings of individuals in a capitalist society. Our task here is to extend and elaborate this basic insight of Marx so as to produce a fuller class analysis of the incomes of these and still other groupings of individuals in a capitalist society. However, to accomplish the goal of clarifying a distinctively Marxist theory of income distribution, we will begin by first delineating and distancing ourselves from the prevalent non-Marxist theory.

This is the theory usually labelled "neoclassical" to link it to the marginalist school that has prevailed since the 1870s. It is almost universally taught in American universities and it informs most popular discussion as well. This theory has thus found adherents within as well as outside the Marxian tradition; hence it is doubly important to criticize it prior to presenting here our Marxist alternative.

### *Neoclassical Theory of Income*

In what we understand to be neoclassical theory, income and its distribution among individuals in a capitalist society are determined by three essential human characteristics. Firstly, there are the preferences of individuals, based upon certain predetermined given axioms of choice, to supply certain factors of production and demand goods and services. These preferences are captured in neoclassical theory's notion of individual utility functions. Secondly, there is the human ability to combine these factors of production to produce these goods and services. This is neoclassical theory's notion of production functions. Finally, there is an initially given distribution of factors of production, captured in neoclassical theory's assumption of given resource endowments. These key assumptions concerning the inherent capacity or nature of human beings to make and be responsible for their own destiny (or economic history) form what we may call the point of entry of neoclassical theory. We have used this term elsewhere to designate a theory's starting point from and with which its particular knowledge of life is produced.<sup>3</sup> Theories differ in part because of their different points of entry and thus the different knowledges they produce. Part of the uniqueness and power of neoclassical theory's explanation of income and its distribution stems from its particular starting point of human choice, know-how, and endowments of resources (including skills).

Because neoclassical theory begins with these aspects of human nature to structure and order its conceptual logic, it falls within the broadly conceived humanist tradition. Consistent with this tradition, a comprehensive theory of society is constructed on the basis of a few key assumptions about human beings. Parallel to several if not most approaches within this tradition, it also essentializes its particular entry point of human preferences, know-how, and endowments. By this we mean that neoclassical practitioners reduce all other aspects of their theory of society to these given, essential attributes of each human being: having the capacity to rationally make choices, to transform nature, and to possess resources. In the last instance the supply and demand of all factors of production and all outputs are the phenomena of these governing essences.

It follows that income and its distribution among individuals in capitalist society are determined by these essences. The logic is important for significant



political effects follow from it. Neoclassical theory approaches the determination and distribution of income first as a matter of specifying a production function (one of its essences) in which factors of production obtain shares of output equivalent to their marginal contributions (marginal productivity) toward that output. Here the typical assumption is that services (or factors) of labor, land, and capital are combined in enterprises to generate output given available technologies. The enterprises' produced outputs are socially useful, as determined by market demand for them. The latter is determined in the last instance by consumers' preferences (another of its essences). That usefulness is their value. That value's distribution back to the services or factors combined in the production of the valuable outputs constitutes the factor distribution of income.

Once the entirety of use-value outputs is distributed as income to factors, neoclassical economics can turn its attention to how different individuals obtain their specific incomes. The approach here is to inquire of each individual in society as to which of the given endowment of factors he/she has chosen (based on the essentialized notion of personal preferences) to contribute to use-value production. Individuals may choose to supply one or more of the given factors and thereby obtain incomes. Neoclassical theory explains that the *demand* for such factors of production rests ultimately upon consumer preferences (governing the value of outputs produced by such factors) and the enterprise's production function (governing the marginal product of such factors). The *supply* of these given factors rests ultimately upon human willingness to supply them. Taking the demand for and supply of factors of production together, the income received by individuals in society are determined logically by what lies behind such schedules of human behavior: human preferences on both the supply and demand sides, human know-how on the demand and human endowments on the supply sides, respectively.

So the wage income of an individual in a capitalist society is based upon his/her taste for labor rather than leisure and the marginal productivity of that labor; the profit income is based on an individual's taste for savings in the form of capital supplied to the production process and the marginal productivity of that capital. Neoclassical theory then draws a remarkably radical conclusion: the source of profits is to be found in an individual's choice to be thrifty and in the given marginal productivity of that capital, one of the possible results of thrift. This choice is by assumption independent of any other individual's choice to supply labor. It follows that the profit incomes of individuals in society are *not* received at the expense of wage incomes. Rather, profit and wage incomes are determined by each individual's actions in determining whether he/she will be a supplier of savings or labor. We have then our conclusion: personal preferences regarding final goods and regarding the supply of the given endowments of different factors and marginal productivity of those factors determine different incomes and their distribution in society.

Neoclassical theory conceives of capitalist social development as the struggle of human beings to construct social institutions (free and competitive markets, private property, profit-seeking enterprises) which will both allow and induce each person to realize his/her inherent capacity to express preferences and to transform nature. The object of such realization of this given human potential is the production and consumption of wealth, measured in terms of numbers of use values. A truly radical notion of income distribution results. It is radical in the sense that rewards of wealth to different individuals rest largely on the autonomous wills of these same individuals. They receive their shares of wealth (use values) according to what they as individuals have freely chosen to provide as inputs to produce that wealth and taking into account the technologically inherent (marginal) productivity of that contributed input.

In contrast, a Marxian theory of income and its distribution, as we understand it, proceeds very differently. Marxian theory's entry point is neither human preferences nor marginal productivities nor given resource endowments. Rather, we think that Marxian theory begins with the notion of the production/appropriation of surplus labor—what we have elsewhere called the fundamental class process. This process has literally no existence in neoclassical theory, in the "reality" which that theory sees and seeks to comprehend. By its focus on this class process, Marxian theory proceeds to produce radically different concepts of income and its distribution than those contained in neoclassical theory. Moreover, these Marxist concepts cannot be reduced to or made derivative from its entry point concept of the fundamental class process. Unlike the reductive and derivational method deployed in and by neoclassical theory, Marxist theory embraces a very different relational method, what the French philosopher Louis Althusser has labeled overdetermination (a term taken from Freud and Lukacs) for the particularly Marxist notion of dialectics. This amounts to a radically different way to think about causality than that employed in neoclassical theory; it is an anti-essentialist concept of causality. Marxist theory conceives of the existence of each and every process of life—including this fundamental class process—as the result of ("caused by") the combined determinations emanating from all other distinct processes. Conceived in this way, each distinct process cannot be reduced to (derived from) the effects of one or a subset of them, since the combined effects of all "cause" or, quite literally, produce its existence. There is then no essential cause(s) for none is (are) permitted by this Marxist notion of causation and existence.

Consequently, the neoclassical and Marxist notions of income differ in very fundamental ways. Neoclassical theory lies within the broadly conceived tradition of an *essentialist humanism* because of the governing role played by its unique entry point concepts of human preferences, know-how, and endowments. In sharp contrast, our Marxian approach involves a new *anti-essentialist class* theory built upon Marx's formulations of this class (exploitation) process,

his unique entry point concept, and of his new relational concept of dialectics, now known as overdetermination.

Neoclassical and Marxian theories' two radically different entry points and internal logics produce very different conceptual objects, which, in turn, have very different social consequences. For the neoclassical believer, the elimination of the relative poverty of the individuals in a capitalist society (measured by, say, their relatively low wages including, in the case of unemployment, zero wages) can be achieved by their choosing to supply more labor and/or more thrift. Work hard and be thrifty is the motto of the neoclassical view of capitalist society. Social institutions that inhibit or prevent such behavior should be eliminated. These include, on one hand, monopolies, non-smoothly working markets, sexism and racism that one way or another produce what are often referred to as market imperfections and, on the other hand, irrational state interventions and political parties that interfere with the private (rational) acts of individuals.

The neoclassical argument is the same no matter which social institution is being discussed. Less wealth (in use-value terms) is produced, distributed and consumed than if such market imperfections and irrational and tyrannical behaviors did not exist. This view is perfectly consistent with the neoclassical notion that the established institutions of capitalism must reward the just (the rational decision maker, the hard working and thrifty individual) and punish the unjust (the irrational, the lazy and the spendthrift individual). Indeed, if such created institutions permit *each* individual to freely choose what is best for him/her-self, i.e., if each acts to maximize his/her own self-interest, there will result an efficient allocation of *all* individuals' privately owned factors of production.

For the Marxist, the elimination of poverty in a capitalist society requires eliminating the capitalist fundamental class process, one of its major sources. However, to eliminate this process is radically to alter the capitalist society for the extraction of surplus labor in value form is that single process which gives its label to the society. A central goal for the Marxist is strikingly different then: revolution over the capitalist fundamental class process or, in the historic language of the Marxist tradition, class struggle.

This advocacy of revolution to fundamentally change the distribution of income in a capitalist society is hardly surprising, although invariably unsettling to many. It is not surprising for profit and wage income are in an intimate and mutually dependent relation with one another in Marxian theory. Indeed, as Marx repeatedly argues in the first volume of *Capital*: the source of capitalist profits is unpaid wages. And as he repeats throughout volumes two and three of *Capital*, these profits must be utilized to create the conditions of wage labor in the first place. In the dialectical language of Marxism, profits and wages condition each other's existence. They do so because without productive labor there can be no surplus value (a key lesson of volume one), but without

surplus value the conditions necessary for productive labor to exist will not be secured (a key lesson of volumes two and three).

Relative poverty means something then very different to the Marxist. For such a believer, the relative poverty of productive workers is caused by their laboring for the benefit of others for some hours for absolutely no pay whatsoever. The receivers of this gift of unpaid labor have the ingenuity if not genius to attribute it to their own management labor, to their personal sacrifice of present consumption so that they may offer capital resources for the benefit of all, and to the inherent (marginal) productivity of that capital. That is the power of neoclassical theory. But for the Marxist, the receivers of surplus value, or to give them their proper name, the industrial capitalists, obtain this sum of value without doing anything whatsoever—that is precisely why what Marx saw in society is so unsettling to so many and so dangerous to so few.

This Marxist view is really impossible for the neoclassical economist on both theoretical and moral ground. Theoretically, it denies the basic underlying tenet (conceptual point of entry) of neoclassical theory: wages and profits of individuals are determined independently of each other based in the last instance upon individual preferences to supply particular amounts of the initially given endowments of factors weighted by the marginal contribution of such factors. Morally, it implies changes which would deny the freedom for such choices and thus produce less wealth than if this were not the case. For the neoclassical economist, then, the Marxist explanation becomes an irrational if not dangerous approach to understanding income and its distribution. It denies what neoclassical theory takes as the essential determinants of income and then replaces this conceptual entry point with its own, the fundamental class process, an economic process which, according to neoclassical theory, does not currently, if it ever did historically, exist. Individuals who claim to see that which did and does not exist are either very irrational or dangerously devious in their intentions.

For the Marxist, neoclassical theory and its policy proposals cannot eliminate relative poverty. They do not understand or eliminate its source: class exploitation. Indeed, the successful elimination of market-imperfections and the creation of a fully employed society in which each and every citizen, irrespective of his/her race, creed, or gender, has an equal opportunity to be rich or poor, depending on their given personal preferences and the given technical productivity of their privately owned resource, would *not* change the source of profits as unpaid labor time. There are times in society, such as these, when this statement is worth underscoring. No matter how much a Marxist may struggle for the elimination of racist and sexist barriers in capitalist society, such struggles cannot be confused with, although they may well be conditions of, struggle over the fundamental class process. In the language of this paper, such reforms in society could possibly improve the income distribution as understood and measured in neoclassical terms while it worsens in Marxist terms.

It does not follow that such reforms (and others) should not be advocated and struggled for. Rather, it suggests that a careful theoretical distinction be made between class (the economic process of surplus labor extraction) and non-class processes (e.g., racial and sexual discrimination and income distribution) so that a change in one is not presumed to be or become the automatic determinant of a change in the other. As noted, such a conceptual distinction is a key part of our argument and, we think, Marx's as well.

There is one additional but important remark to make. We think that most individuals in a capitalist society accept some version—however vague—of the neoclassical understanding of the determination of income as presented here. For us, such acceptance secures an important cultural condition allowing capitalist exploitation to exist and continue. Hence, this paper aims to challenge and alter this one condition of existence of the capitalist fundamental class process. If successful, the effect will be to displace the neoclassical notion of income with what we construct here, a Marxist view. Such a view, we hope, will move the society in a particular direction: to recognize explicitly the existence *and* social effectivity of that which neoclassical theory denies, the capitalist fundamental class process. Such a recognition puts on the political agenda the ending of a process by which some individuals receive the (surplus) labor of others while giving absolutely nothing in return. Capitalist income is based on that which Marxism is committed to end: exploitation.

#### *A Marxian Concept of Income and its Distribution<sup>5</sup>*

It has been the tradition of Marxian theory to specify and explain changing relationships among human beings in a society. Such relationships among individuals are here understood (defined) to comprise particular subsets of social and natural processes. Relationships differ from one another according to which particular social processes constitute them.

Incomes are understood to arise in and from such relationships and not from the given (marginal) productivity of "things," called factors of production in neoclassical theory. Indeed, Marx (in *Capital*, 3) ridicules such a notion and such an approach to income distribution exemplified in the writings of Smith, Ricardo, and other classical political economists.<sup>6</sup> Marxian class analysis of income begins with the recognition that different kinds of relationships—and thus different subsets of processes—produce different forms of income. Such incomes—received flows of value—can be differentiated broadly into class and non-class components. Some relationships among human beings give rise therefore to class and some to non-class incomes. Still other relationships generate neither or both types of income at once. Our focus here is upon class and non-class incomes.

#### *1. Fundamental and subsumed class incomes*

Relationships among individuals in a capitalist society which include, among other processes, the particular process of production/appropriation of surplus value (the capitalist fundamental class process) generate income flows to the participants in such a class process. Such participants, we argue, occupy capitalist fundamental class positions and thus receive capitalist fundamental class incomes. In other words, the capitalist fundamental class process produces income flows to both productive laborers and appropriating capitalists:  $v + s$ . Their relationship with one another, no matter what other social (economic, political or cultural) or natural processes it may include, involves by definition this fundamental class process. Their consequent receipt of flows of value are then fundamental class incomes.

As Marx stresses repeatedly, there is a crucial difference between the two fundamental class incomes. The income flow to the productive laborer,  $v$ , involves an exchange of equivalents: the commodity labor power is sold in exchange for the fundamental class income flow. In contrast, the income flow to the capitalist,  $s$ , involves no exchange: the capitalist receives the surplus value for nothing.

Other relationships among individuals which exclude the capitalist fundamental class process but do include the process of distributing the already appropriated surplus value also give rise to income flows of value but of a different kind. We call such a distribution process the subsumed class process. Individuals who participate in it occupy capitalist subsumed class positions and thereby receive flows of value designated as capitalist subsumed class incomes.

Our specification of the capitalist subsumed class process and its personification in subsumed classes begins from and extends Marx's discussion of such classes in *Capital*, 3. Marx discusses there a number of different groupings of individuals including merchants, money-lenders, owners of means of production, landlords, and managers. Each of these participates in the subsumed class process and thereby obtains a distributed share of appropriated surplus value in the form of fees, interest, dividends, rents, and salaries. They receive such income flows of value because they secure different conditions of existence of the capitalist appropriation of surplus value. For so doing, merchants receive a fee which, as Marx clearly demonstrates, is a claim on the industrial capitalist's already existing and received surplus value.<sup>7</sup> In parallel fashion, capitalist landlords, money-lenders, and owners receive their respective shares of surplus value in the form of rents, interest, and dividends for the process of providing the capitalist with access to privately owned land, money, and means of production. Marx devotes some analysis to each of these subsumed classes emphasizing that their respective incomes are but distributed shares of the already existing fundamental class income of the capitalist.<sup>8</sup> Somewhat less

attention and analysis are devoted to managers and state functionaries.<sup>9</sup> Nonetheless, the point of Marx's overall theoretical argument is clear: these subsumed classes also receive, respectively, distributed flows of value in the form of salary or wage income and tax revenues for providing the appropriating capitalist with a variety of different non-class processes (e.g., disciplining workers, expanding military protection, etc.).

We shall designate these value flows as subsumed class incomes, denoted as  $\Sigma_{ssc}$ . Furthermore, we may note that subsumed class incomes may, but certainly need not, occur together with an exchange of equivalents. Thus, for example, the distribution of appropriated surplus value to managerial personnel produces subsumed class income for them and in exchange they provide an equivalent value of unproductive labor power to the capitalist who distributes the surplus value.<sup>10</sup> On the other hand, the interest paid by such a capitalist to a bank for a loan produces a subsumed class income to the bank for which no equivalent value is exchanged. The same absence of equivalent value exchanges holds for the subsumed class incomes obtained by merchants, common stock holders, landowners, and state functionaries who provide their respective conditions of existence for the capitalist fundamental class process.

## 2. Non-class incomes

There are numerous relationships among individuals in society which do not include either the fundamental or subsumed class process, but do give rise to incomes. Because of this, we call such received incomes non-class incomes and designate them as  $\Sigma_{nc}$ . Such flows of value are received by occupants of positions within certain non-class processes. To receive an income in a capitalist society then does *not* require one to occupy either a fundamental or a subsumed class position.

The specific non-class processes that generate non-class incomes may, but certainly need not, be commodity exchanges (here presumed for simplicity to be exchanges of equivalent values). Thus, for example, the sale of labor power to anyone *other* than a surplus-value appropriating capitalist produces an equivalent value receipt of non-class income. It is non-class income because this recipient occupies neither a fundamental nor a subsumed class position in obtaining this value flow. We have in this case Marx's example of unproductive labor power being exchanged for non-class income. Relations between, say, bankers and their employees include this non-class economic process of exchange of unproductive labor power for an equivalent wage payment.

As this example suggests, there are numerous groups in capitalist society who receive such non-class incomes in the form of wages. Employees hired by merchants, landlords, money-lenders, and state functionaries are examples of individuals selling unproductive labor power to subsumed classes. Such

employees receive non-class incomes because they do not produce, appropriate, distribute or receive a distribution of surplus value. Their relation is with different subsumed classes who, by Marx's definition, are *not* involved with the production of value or surplus value. It follows that neither the fundamental nor the subsumed class process and *a fortiori* neither kind of class income exists in their relationship with subsumed classes.

In other words, the subsumed class process is a *first* distribution of appropriated surplus value. Possible subsequent redistributions of such value flows are designated as non-class incomes—as are redistributions of workers' wages when, for example, they take the form of interest payments on those workers' consumer debt. Such payments amount then to non-class incomes to the lenders.

There are numerous non-class incomes that need not occur within an exchange process. For example, a loan to anyone *other* than a surplus-value appropriating capitalist produces an interest flow to the lender which is a non-class income to that lender. The same holds for the holder of common stock in enterprises that do not appropriate surplus value from their employees, for the landlord who rents to other than industrial capitalists, and for the state that taxes other than industrial capitalists. Their respective dividends, rents, and taxes constitute non-class incomes which accrue without an exchange of equivalents.

Marxist theory, as we understand it, seeks analytically to distinguish the production and distribution of surplus value (class incomes) from all the other value flows (non-class incomes) in society. The purpose of the distinction is to prepare the ground for a specifically class analysis of the interaction between both kinds of flows and the analysis of their interaction with all the other processes of the society.

## 3. Class and non-class incomes

$$(1) \quad Y_i = v_i + s_i + \Sigma_{ssci} + \Sigma_{nci}$$

Combining fundamental, subsumed and non-class incomes, we can propose a general formulation of the class analysis of income distribution. Any recipient's income can be expressed as (Figure 1) where  $v_i + s_i$  represents fundamental class income generated by the fundamental class process;  $\Sigma_{ssci}$  represents subsumed class income generated by the subsumed class process;  $\Sigma_{nci}$  represents non-class income generated by non-class processes. Depending on the particular class and non-class positions occupied by each recipient, particular terms on the right-hand side of equation (1) may be zero. What the equation permits is the class-analytic breakdown of any recipient's total income into its fundamental, subsumed and non-class components.

According to this equation, to say that an individual's income is relatively



low or high is to say nothing about the class composition of that income. Indeed, to focus exclusively on income and its changes over time is to abstract from the right hand side of equation (1): the class and non-class determination of that income. This approach may be applied—with interesting results—whether the particular recipient is an individual person or an enterprise (deploying productive or unproductive capital), a household, a state or a church, etc. In all cases, what is produced is a Marxian class analysis of the recipient's income: literally the class distribution of the recipient's income. We shall illustrate this with a few examples in the next two sections. As shown there, the typical income-categories of wages and profits turn out to be complex Marxist categories which include a number of different class (fundamental and subsumed) and non-class components.

The concept of income distribution produced so far is not only different from that of the neoclassical approach, but also different from the one produced by Marx in his rendition of the trinity formula in *Capital*, 3. We have argued so far that the neoclassical approach deduces income flows from relations between human beings and use values (the preference ordering), from the use values themselves (the production factors), and from presuming some initial distribution of use value (the endowment of factors). Thus profits earned by an individual are determined in the last instance by a relation between that person and a machine in which the use value, the machine, has a given productivity over which the individual has a claim because he/she owns it. Profits are reduced to the productivity of the machine, to endowments, and to preferences which result in both supplies of saving (in the form of a privately owned claim to that machine) and supplies of labor (as individual choices are made between more earning and leisure). This approach is not basically altered by the extensive literature in neoclassical theory which seeks to clarify just what are these factors of production. Whether the contribution of the factor is entrepreneurship or information gathering or uncertainty management, the idea remains the same: income is a share of use value output received as a reward for the contribution of the factor in question.

In contrast, the Marxist approach to flows of income developed here begins by specifying the different income generating class and non-class processes comprising relations among human beings. To participate in such processes is to occupy income-producing positions. For the Marxist, then, the productivity of a machine effects surplus value only in so far as that productivity can be shown to be in some relationship with the fundamental class process. In other words, the income issue for the Marxist approach is the specification of the interconnection between use values, whether they be inputs or outputs, and the class process(es). This is a very particular concern with use value that follows logically from the Marxist overdetermined entry point of class. In quite parallel fashion, the total lack of such concern in neoclassical theory follows every bit as logically from its unique essentialized entry point concepts of human

preferences, know-how, and pre-determined endowments. Each theory claims its truth about the reality it seeks to understand; each produced truth becomes one of the conditions of existence of different political and economic policies.

For the neoclassical economist, the right hand side of equation (1) quite literally does not exist; it is replaced by the well-known neoclassical income determination equation in which equilibrium amounts of factors supplied weighted by their respective marginal productivities determine incomes. Consequently, the same word, income, has completely different meanings in the two different theories. And, as just noted, these very different meanings, in part, have produced historically and will likely continue to produce very different social consequences.

Our conception of income also differs from what Marx specifically produced in volume 3. Marx's object there was to show that the already appropriated surplus value was distributed in the form of income shares to different occupants of subsumed class positions—a profit share ("profit of enterprise plus interest") to capital and a rental share ("ground rent") to landed property.<sup>11</sup> His point was not to explain the class analytics of an individual's class and non-class incomes, as in this paper, but rather to show that productive labor (and not the "independent" factors, land and capital) created income for his landlords and capitalists. The incomes of the merchants, owners, managers, and money lenders, together with the income of the landlord, equaled the surplus value already appropriated by the industrial capitalist. In this regard, new value added, in Marx's words "the value of the annual product" produced by productive labor, must be equal to either the sum of surplus value and the value of labor power or the sum of subsumed class receipts and the value of labor power.<sup>12</sup> If the latter, then Marx's rendition of the trinity formula follows: the value of the net annual product equals the sum of the three components, the value of labor power ("labor-wages") plus the profits of enterprise and interest (together designated "capital-profits") plus ground rent ("land-ground rent").<sup>13</sup>

A class approach to a recipient's income is the object of this paper. Thus for any recipient we count in equation (1) both the receipt of surplus value and of subsumed class payments as *different class incomes* despite Marx's volume 3 demonstration that total distributed income shares to occupants of subsumed class positions equal the already appropriated surplus value income of the industrial capitalist. This form of "double-counting" of income followed in this paper poses absolutely no problem whatsoever. Indeed, it is required if we are to calculate correctly multiple class incomes.

To recognize both fundamental and subsumed class incomes is to recognize the different class sources of such incomes precisely because of the different societal relations entered into by individuals. Non-class analytic approaches, such as those developed by classical and neoclassical economists, allow one to abstract from these different class processes because of the different conceptual foci developed there—production of use values in the case of the classicals and

the preferences for and production of use values in the case of the neoclassicals. Thus what appears as a problem of double counting of income in the terms of both classical and neoclassical theories becomes rather a part of the solution determining income in Marxian theory.

Marx's different approach and object in volume 3 required him, therefore, to argue a very different point: since surplus value equals subsumed class revenues, only one of these income categories could be added to the value of labor power to derive the value-added income total for the society. In this way he was able to ridicule the classical economists' notion (and we might add the current neoclassical one as well) that land and capital were independent (i.e., independent of productive labor) sources of rent and profit income.

### *Some Class Analytics of Income*

Equation (1) suggests that any individual may occupy a number of different capitalist class and non-class income-producing positions. For example, during a life time or even at different parts of the same work day, an individual may sell productive labor power to a surplus-value appropriating capitalist, thereby earning a fundamental class income of  $v$ ; he/she may also sell unproductive labor-power to other than an industrial capitalist, thereby earning a non-class income of  $nc$ ; and the individual may purchase privately or through a pension plan the stock of an industrial enterprise, thus earning a subsumed class income of  $sc$  in the form of dividends.<sup>14</sup>

The recipient of these different class and non-class incomes must also utilize the received revenues to reproduce the conditions of existence of each of them. Otherwise the revenues may not continue. In other words, each of these revenue producing positions requires expenditures to secure its existence. To secure the fundamental class wage-income of  $v$ , the individual purchases at their value means of subsistence necessary to reproduce his/her position as a performer of productive labor. To secure the particular subsumed class dividend-income of  $sc$ , the individual buys industrial stocks and pays whatever expenses are involved with such security investments. And finally, to secure the specific non-class wage-income of  $nc$ , the individual must also purchase at their value whatever basket of commodities are deemed socially necessary to reproduce his/her position as a performer of unproductive labor. We may summarize each of these expenditures in the following equation:

$$(2) \quad E = e_1 + e_2 + e_3$$

where the subscripted  $e$  variable denotes, respectively, those expenditures necessary to secure the individual's fundamental, subsumed, and non-class positions generating income.

Consider the multiple positions occupied by a very different individual. This person may be a board member of an industrial enterprise thereby receiving a fundamental class income of  $sv$ .<sup>15</sup> He/She may also occupy a subsumed class management position by selling unproductive labor power to the same enterprise (the unproductive labor power commodity is then actually sold to the enterprise's board of directors in their capacity as industrial capitalists). This same individual is thus a recipient of  $sv$  in one class capacity within the enterprise and the recipient of  $sc$  in another class capacity. It is also likely that this same individual is a stock-owner of the enterprise. If so, the dividends that he/she received would be added as an additional subsumed class income. Finally, such an individual may purchase stock in a non-industrial enterprise such as a bank or merchant house; he/she may also purchase bonds issued by the state. The dividends and interest earned from those holdings would count as non-class incomes.

Parallel to the previously discussed individual, this one too must utilize the class and non-class revenues received to secure the conditions of existence of each of them. Otherwise, the continued receipt of such revenues would be jeopardized. For example, the individual in his/her industrial capitalist position distributes the received surplus value to those occupying subsumed class positions. This is done to secure their provision of various non-class processes (e.g., economic processes including merchandising and purchasing of commodities and the making available of privately owned money and means of production to the industrial capitalist; political processes including supervision of productive labor and electoral procedures such as voting the individual to the board of directors; and cultural processes including the production and circulation of meanings whose effect is to explain and justify the receipt of surplus value). The combined effect of these non-class processes is the establishment of the individual's fundamental class position. Since this same individual also occupies two different subsumed class positions, expenditures must be made to secure each. First, the individual must purchase whatever subset of commodities are deemed socially necessary to reproduce his/her subsumed class managerial-position as a performer of unproductive labor power within the enterprise. Second, to secure the different subsumed class ownership-position, expenditures must be made on industrial stocks and on any other associated investment expenses. Finally, to secure the non-class dividend and income-interest from the portfolio holdings of non-industrial stock and bond issuing enterprises, their securities must be purchased and various portfolio maintenance expenses must be covered as well.

These different expenditures may also be summarized in a manner similar to that of equation (2) above. However, we may note that the precise expenditure pattern for each of these two individuals will differ depending upon the particular class and non-class positions occupied by each of them. Thus, although both individuals occupy fundamental class positions and thus expend

e1, one performs surplus value and thus expends v-income on commodities to secure that position while the other receives surplus value and thus distributes sv-income to subsumed classes to secure that very different but still fundamental class position.

What these two examples first suggest is the problematization of the category of "an individual's income" as it is typically understood and used within neoclassical theories and also some other Marxian arguments. These two individuals are obviously alike in that both are recipients of income. They are not alike in their different jobs, different sources, and probably different levels of income. Although both are stock holders, one is a member of the enterprise's board and helps to manage it while the other produces the capitalist commodities it sells. However, we understand these and other differences in a particular way. Our approach focuses not chiefly upon the individuals' higher or lower incomes or the particular kinds of work that they perform. Rather, we stress individuals' similar or different relations to the class (fundamental and subsumed) and non-class processes participated in by each of them. We are interested in producing a class knowledge of their different jobs and sources and levels of income. We quite literally want to deconstruct "an individual's income" and replace it with a whole new Marxist construction: the class and non-class composition of income. To ignore or de-emphasize individuals' different participation in such class and non-class processes in favor of foci upon income levels and job performance is, we believe, to displace a Marxist class analysis of their income differences. The consequence is to open the door to non-Marxist approaches generally and, given its dominant position, to the neoclassical approach in particular.

This discussion suggests the problematization of the categories of "proletariat" and "bourgeoisie" as they typically are used within the broadly conceived Marxist tradition. In our examples, both individuals occupied class positions that would likely place them in both categories. In the case of the first individual, is he/she to be considered only a member of the proletariat despite the fact that he/she occupies a capitalist subsumed class position and receives a distributed share of appropriated surplus value? And if so, then what of his/her non-class income resulting from the sale of unproductive labor power? Should the category of "proletariat" include without differentiation the sellers of both productive and unproductive labor power? Is the second individual to be considered simply a member of the "bourgeoisie" despite his/her receipt of wage or salary income as a seller of unproductive labor power?

We think the categories of "proletariat" and "bourgeoisie" are usually as vague and possibly misleading as is the category of "an individual's income." Because such notions are often constructed without any reference to the category of class, they cannot be used to draw conclusions about the existing and changing class nature of individuals and their incomes in a society. The use of such terms tends to conceal what Marxist analysis reveals to be the very different class and non-class components of each. It treats an individual who

participates in the capitalist fundamental class process in the same way as one (perhaps, in our example, the same individual) who participates in the subsumed class process. Yet it is precisely such differences which Marxist analysis seeks to specify. What we seek, therefore, is a class knowledge of each of these categories: the important class and non-class differences within each of them. An example can develop this point further.

Assume initially that productive workers only occupy the capitalist fundamental class position and thus earn v. Their total income is:  $Y = v$ . Now, suppose there is a dramatic social change in the society resulting in a state-ordered nationalization of industrial enterprises and a shift in each of them to what may be called a democratic-worker-management organization. All workers gain collective ownership of the means of production, some workers are also elected by all of them to occupy the various management positions within the now nationalized enterprises, and still others are elected to occupy all the fundamental class positions on the boards of directors of such enterprises. Let us further assume that as a result of such changes, the incomes of these workers rise by the same amount as the income of the former industrial capitalists, managers and owners fall.

Are we now to conclude that a significant change in these two non-class processes—property ownership (nationalization of the means of production) and power (worker-controlled enterprises)—have produced a disappearance of the "bourgeois class" and an emergence of socialism? If there were no other information supplied as to changes in any other social processes, we do not think one could draw such a conclusion. There is no question but that these are dramatic and radical changes in the social processes of property-ownership and power: they do indeed alter individuals' occupation of class positions and thus how incomes are distributed among them. Nonetheless, it does not necessarily follow that the "bourgeoisie" and their sources of income have vanished. In one possible outcome a class analysis shows that workers have added various *new* capitalist fundamental and subsumed class positions and incomes (sv and sc) to the ones already occupied and received (v). What has altered is different individuals' participation in different class processes within this still existing bourgeois category.

Under these new conditions, the new capitalist incomes of workers can be

$$Y = v + sv + \sum sc.$$

So instead of a transition from capitalism to socialism, there has been an addition of various possible new sources of capitalist income (sv and/or  $\sum sc$ ) for such workers but within a still existing capitalist class society. We may have then a radical change in income distribution in a capitalist society as a result of a transition from one form of capitalism to another.

If, however, the concepts of "proletariat," "bourgeoisie," and of their



respective incomes were constructed with no regard to class notions, then the same observed changes in income distribution could easily produce the very different conclusion that the "proletariat" had displaced and thereby effected the elimination of the "bourgeoisie." Such approaches within the Marxist tradition tend to conflate changes in property ownership, power, and income distribution with changes in class structure. They thus produce very different knowledges of social changes from those produced by the class analysis we seek to present.

This discussion has focused so far on the analytics of only capitalist income. However, when questions of transition are introduced, it is necessary to extend this analysis to the level of a social formation which includes the possible existence of different non-capitalist class positions occupied and incomes generated therein. Modifying equation (1) allows for this possibility by adding to its right hand side the different non-capitalist incomes that an individual may receive (in addition to capitalist class incomes and non-class incomes):

$$(3) \quad Y = (v+s+\Sigma sc) + (\Sigma nl' + \Sigma sl' + \Sigma \Sigma sc') + (\Sigma nc).^{16}$$

The new, primed categories refer to non-capitalist sources of fundamental class incomes ( $\Sigma nl' + \Sigma sl'$ ) and of subsumed class incomes ( $\Sigma \Sigma sc'$ ).

As is well known, Marx identified different forms of surplus labor extraction: feudal, ancient, slaves, communist, and still others. Individuals who participate in these different non-capitalist fundamental class processes occupy different fundamental class positions and receive different fundamental class incomes:  $nl'$  or  $sl'$ . We may add to this the existence of different non-capitalist subsumed class processes and therefore individuals who occupy different non-capitalist subsumed class positions. Feudal subsumed classes secure the conditions of existence for the feudal fundamental class process; ancient subsumed classes provide the conditions for the ancient fundamental class process to exist; and so forth. For securing such conditions, each subsumed class grouping receives its distributed share of appropriated surplus labor:  $\Sigma sc'$ . Summing across all feudal, ancient, etc. subsumed class incomes, we have:  $\Sigma \Sigma sc'$ .

The specification of equation (3) is quite consistent with the Marxist understanding that all societies comprise different fundamental and subsumed classes. Indeed, the term social formation is typically used in place of society so as to better capture the notion that it is the formation, or location, of all these different and co-existing class structures. A social formation is also understood to exist in transition for that is how Marxism conceives of the existence of any object of inquiry. Since each process of life is overdetermined by the combined effects exerted by all the others, each is propelled in different directions by these different determinations. As the totality of all processes, a social formation thus exists in change, in transition, because of its overdetermined nature. This concept of a social formation comprising different class structures

and a necessarily transitional nature is central to Marxist analysis. Yet, this is precisely what is abstracted from if social analysis focuses on income levels of a society at a point in or over time.

Questions of transition between different social formations, from, say, a capitalist to a communist social formation, concern the emergence for individuals within the capitalist social formation of new communist class positions and incomes.<sup>17</sup> Equation (3) permits such a class analytical specification and determination. In contrast, approaches that focus only on  $Y$  in this equation miss the perhaps significant transitional changes occurring on its right hand side. In fact, changes in  $Y$  do not permit any particular conclusion to be drawn regarding the relative expansion or decline of capitalism and whatever non-capitalist class-structures with which it may co-exist. So, for example, a so-called socialist strategy may have—according to its own standard—the best of socialist objectives in mind in its aim to fundamentally change the income distribution in the social formation. If, however, it ignores the right hand side of this equation, it quite possibly could produce results which negate its own socialist aim.

A socialist policy may accomplish the raising of aggregate incomes for the majority of citizens without lowering incomes for the minority. In neoclassical terms, this may be considered an optimal result. Nonetheless, in Marxist terms, the opposite conclusion may hold. This observed change in income could be accomplished by a strategy which unwittingly produces favorable conditions for capitalist expansion (and thus the capitalist income categories rise in equation (3) for the majority of citizens) while it at best is neutral with regard to communist social conditions and incomes. Such a strategy and result could hardly be considered optimal from the perspective of a socialist objective which is to foster communism and remove the conditions of existence of capitalism.<sup>18</sup>

The specification of equation (3) also permits us to examine critically two categories prominent in the Marxist and non-Marxist literature on social change and transition within so-called developing societies. Parallel to our critique of notions of "proletariat" and "bourgeoisie," we often find the use of such categories as the "peasantry" and the "landlord class" to be every bit as vague and misleading. A so-called "peasantry" may include individuals occupying a number of different non-capitalist *and* capitalist class positions and receiving associated sources of income. For example, during the off-crop season individuals in rural areas may sell productive labor power thereby earning a capitalist fundamental class income of  $v$  while at other times they may be engaged as tenant farmers performing, say, feudal necessary and surplus labor. In this latter non-capitalist class position, they earn a feudal fundamental class income of  $nl'$ .

When the category of the "peasantry" abstracts from such important class distinctions, it can itself emerge as the central class category of analysis. This amounts to ignoring completely the class-theoretic approach and contribution



of Marx. Instead of dividing individuals and their incomes according to the different (fundamental and subsumed) class and non-class processes in which they participate, we have this otherwise theorized class of the "peasantry," generally meaning individuals in rural areas who are both relatively poor and engaged in some form of farming. Of course, some differences among the "peasantry" are often recognized and perhaps even new class divisions ("peasant classes") may be theorized out of these differences. The "peasantry" is displaced by new "class categories" which place individuals in them according to the amount of land they may cultivate, lease or own; or according to the number and value of farm animals or tools they may own; or according to a number of other subsets of observed differences. After all, individuals do not lack for differences which can be used in different combinations to place them into different groupings, which may be labelled "classes."

The income of the "peasantry" as a totality or of "class divisions" within it are calculated and changes in such measured incomes are taken as indices of social change and transition between social formations. Such approaches conceal possibly important movements within and between non-capitalist and capitalist class structures in, say, rural areas. Transitions within each and between them may be occurring that have little to do with a Marxist class analysis and may even act to undermine it if they are taken to be consistent with or extensions of Marx's work.

The category of "landlord class" invites a similar set of criticisms. It too abstracts from the different capitalist and non-capitalist class positions occupied by the individuals it aggregates according to criteria other than class processes. For example, individuals within such a category may receive feudal surplus labor of  $sl'$  in the form of feudal rents (from their feudal tenants) and thus occupy a feudal fundamental class position. They may also receive a distributed share of capitalist surplus labor in the form of capitalist rents. They occupy then a capitalist subsumed class position. We may note here that the meaning of rental income is completely different in these two cases; its meaning depends on the specification of particular class processes: in one case, rental income means a feudal *fundamental* class receipt and in another it means a capitalist *subsumed* class receipt. To treat such rental incomes as the same is, as Marx explicitly emphasized, to obscure such class distinctions.<sup>19</sup>

Changes in so-called "landlord class" income do not permit inferring any particular conclusions regarding changes that may be occurring between and within different class groupings. For example, a decline in this aggregate income could be quite consistent with a rise in feudal exploitation and thus income. Consider simply the possibility that a decline in capitalist subsumed class rental income outweighs a rise in feudal rents. Theories of economic development that equate a powerful "landlord class"—measuring power by income—with barriers to capitalist development might predict capitalist growth based on the observed landlord income decline. In contrast, a class

analysis of the specified circumstances, as sketched here, would reveal a growing feudal fundamental class income and quite probably a consequent strengthening of barriers to capitalist growth.

### *A Marxian Critique of "Wages" and "Profits"*

Changes in the ratio of profits to wages in a capitalist social formation are used frequently by Marxists and non-Marxists alike to support their arguments attacking or defending such a social system. What our formulation suggests is the problematization of the categories of "wages" and "profits" as they are usually articulated within both neoclassical and also other Marxian arguments. We may begin to demonstrate this problematization by focusing upon wages. Whether wages are understood as receipts for the sale of labor services (as in neoclassical economics) or the sale of labor power (as in the Marxist tradition), the term as such is critically incomplete and hence imprecise for purposes of Marxian class analysis.

Any individual's wages—and *a fortiori* any aggregate measure of wages in a society—may include fundamental and/or subsumed and/or non-class incomes. The sale of labor power may produce any or all of these different—in class terms—incomes in a great variety of combinations. For example, some individuals may sell (productive) labor power to industrial capitalists thus earning a capitalist fundamental class income of  $v$ ; others may sell (unproductive) labor power to subsumed classes earning a non-class income of  $nc$ ; and still others may sell (unproductive) labor power to industrial capitalists earning a subsumed class income of  $sc$ . An aggregate wage variable includes all such incomes: it collapses the differences—in class terms—of these wages incomes. It abstracts from the class differences of these components of wage income.

Consider then the aggregate measures of wages available from existing compilations in the United States. Because they are constructed without any reference to the class differentiations within the concept of wage, they cannot be the basis for conclusions about the class processes of the society. For example, a change in such aggregate wages does not permit any particular conclusion regarding either the rate of exploitation ( $s/v$ ) or the value rate of profit ( $s/c + v$ ). Nor does the absence of a change in aggregate wages, since such an absence could mean simply that an increase in the fundamental class income component of wages was offset by decreases in the subsumed class or non-class components, etc.

A parallel sort of problematization of the category of profits follows from a class analysis of income distribution. Enterprises have incomes, in our formulation, comprising fundamental, subsumed and non-class components. For example, an enterprise in which the capitalist fundamental class process occurs earns surplus value. It may also own stock of other industrial

enterprises, sell commodities to other industrial enterprises at prices above their exchange value, rent land, or a franchise, and even loan money to other industrial capitalists. In such cases, the enterprise earns subsumed class incomes. Finally, the enterprise may earn non-class revenues by, for example, purchasing input commodities at prices below their exchange value, by selling commodities to buyers other than industrial enterprises at prices above their exchange value, and by renting land, lending money, etc. to persons other than industrial capitalists. All of these diverse class and non-class revenue sources comprise an enterprise's total flow of income.

Typically, in both neoclassical and Marxian discussions, the income flows to enterprises have certain deductions made from them to arrive at some notion of "net" profits to the enterprise. Setting aside the theoretical rationales offered for such deductions, it is the "gross" income flows (and hence the "net" also) that are problematized in our approach. An enterprise's income may rise, then, together with a rise or fall or no other change in the surplus value it may be appropriating from its productive laborers. No inference from changes in profits to changes in the class distribution of its income can be drawn in analyzing enterprises, unless the precise class breakdown of its income is available. Yet such breakdowns are unavailable since they have been utilized neither in constructing the data on individual firms' profits nor in constructing aggregate measures of profits.

Finally, such categories of income as interest, rent or taxes display similar complexities. Each of these may comprise both subsumed class and non-class components. Without precise measures which distinguish these components, there exists no way to connect such categories of income to the class processes of the capitalist social formation.

We may state the conclusions of this critique of wages and profits as follows:

$$(4) \quad W = v + \sum ssc + \sum nc$$

$$(5) \quad P = s + \sum ssc + \sum nc - X$$

where  $W$  is a variable for wages and  $P$  is a variable for profits (the variable  $X$  denotes the deductions from enterprise incomes made to arrive at the "net" notion of profits,  $P$ ). Equations (4) and (5) are, of course, simply special cases of the basic Marxian class analysis of income summarized in equation (1).

Using equations (4) and (5), we can draw critical attention to a widely used concept of income distribution which underlies statistical compilations and their interpretations both inside and outside the Marxian tradition:

$$(6) \quad P/W = s + \sum ssc + \sum nc - X / v + \sum ssc + \sum nc.$$

Our class analysis draws attention to the fact that this measure aggregates and thus misses the important fundamental/subsumed/non-class distinctions. Thus, for example, this measure of income distribution may fall while the rate of exploitation ( $s/v$ ) rises. So a rise in the rate of exploitation can be entirely consistent with a change in the distribution of income against "capital" and in favor of "workers."

### Conclusions

Discussions of the distribution of income couched in the usual terms of wages, profits, interest, rent, taxes, etc. cannot be directly applied to or integrated within Marxian class analysis. Nor will minor calculational adjustments solve the problem of such terms. What is at stake are different concepts of economic processes and structure, different meanings of the terms themselves. Empirical elaborations of Marxian class analysis that use existing statistical sources of data on individuals' incomes, wages, profits, etc. must begin by radically transforming those data into the sorts of class-analytical income components specified above. Otherwise, the attempts to draw Marxian analytical conclusions from movements in those data are logically unwarranted and unacceptable. Yet the dominant practice within Marxist economics is unacceptable in just this regard: notwithstanding occasional lip-service paid to the conceptual difficulties of adapting the usual income-distributional data to Marxian value categories, most Marxists have not even begun to specify what all those difficulties are, let alone propose solutions to them.<sup>20</sup> This paper is an initial effort to at least theorize the specific Marxian class analysis of income and its distribution and indicate its difference from neoclassical categories and data. We seek to construct a Marxist response to Sweezy's important observation that "[t]he field of income distribution . . . is beset with serious conceptual and statistical problems."<sup>21</sup>

Some implications of our formulation may further suggest the importance of a Marxian specification of income and its distribution. The *Capital*, 3, discussion of a tendency for profit rates to decline concerns the value profit rate,  $s/c+v$ . Without a radical transformation of existing data on aggregate profit rates (whether or not broken down by sector, industry, or firm) according to the class/non-class categories developed above, it is not possible to infer either the existence or absence of this tendency from movements in those data. Without a specification of the particular pattern of class and non-class incomes flowing to American workers, it is not possible to specify the consequences of changes in wage-rates upon such workers' total incomes. Constancy of measures such as the relative income shares of "labor" and "capital" may well mask important offsetting shifts between class and non-class incomes which would be crucial for the purposes of Marxian social analysis.

Neither the theoretical exploration of basic concepts nor the empirical construction of usable data for a consistent Marxian class analysis of income and its distribution in capitalist social formations is in an adequate state. The theoretical elaboration barely begun here is intended to enable and stimulate the remedies required by this analytical situation. At the very least, we hope to inhibit the continued abuse of non-Marxian concepts and data constructions by Marxists and shift the terrain of our work onto the surer footing of class-analytical formulations of income and its distribution.

### Notes

1. Paul A. Baran and Paul M. Sweezy, *Monopoly Capital*, New York and London: Monthly Review Press, 1968, p. 10.
2. In *Capital*, 3, New York: Vintage Books, 1981, p. 956 (Chapter 48, "The Trinity Formula"), Marx speaks of the "vulgar economics" and "apologetics" of the bourgeois theorists of the "trinity formula" for income distribution; they held land, labor and capital to be the three great causes (sources) of value and hence properly recipients of shares in that value.
3. See text and footnote citations (especially note 6) of our Introduction to this volume.
4. See Althusser's two essays, "Overdetermination and Contradiction" and "On the Materialist Dialectic" in *For Marx*, translated by Ben Brewster, New York: Vintage Books, 1970. We have discussed Althusser's notions of dialectics and overdetermination in several essays. This work is brought together in our forthcoming book, *Marxist Theory: Epistemology, Class, State and Enterprise*.
5. For income analysis purposes, the revenues generated by the sales of capitalist commodities (no other commodities are considered given our assumption of no class processes other than capitalist) are differentiated exhaustively into variable capital and surplus value. Double counting is avoided by disregarding constant capital which is presumed to be exactly replaced each period. Moreover, no problem of gross vs. net income is required in this approach. We presume that incomes received are in turn expended generally to secure the conditions of existence of the income flows. Thus, productive laborers who obtain the value of their labor power,  $v$ , expend it on commodities to thereby secure the conditions of their existence as sellers of their productive labor power. Similarly, recipients of surplus value, the capitalists who appropriate  $s$ , expend this value in securing their conditions of existence as appropriators. We term these expenditures subsumed class payments. The possibility that all income will not be so expended is disregarded here for ease of exposition of the basic analytical argument. Concrete analyses would always have to attend to such possibilities.
6. Marx, *Capital*, 3, New York: International Publishers, 1977, pp. 814-31. (Unless otherwise indicated, citations to Marx's *Capital* in the following footnotes refer to this edition.)
7. "Since merchant's capital does not itself produce surplus-value, it is evident that the surplus-value which it pockets in the form of average profit must be a portion of the surplus-value produced by the total productive capital." Marx, *Capital*, 3, p. 282.
8. Landlords are discussed in Part VI of *Capital*, 3, pp. 614-781; money-lenders in pp. 338-57; and owners of capital in pp. 370-90 and pp. 436-37.
9. In the case of managers, see *Capital*, 3, pp. 382-89; taxes as a portion of the "Incidental costs of production" are considered by Marx on p. 1041 of the Vintage edition of *Capital*, 1.
10. The distribution of surplus value to purchase additional variable capital—the accumulation of capital, which is another condition of existence of the capitalist fundamental class process—poses an interesting question regarding the income received by the seller of such additional productive labor power. On the one hand, such income qualifies as fundamental class income as per our discussion. On the other hand, it is also subsumed class income by virtue of its being a distributed share of surplus value. We propose to designate such income as both fundamental and subsumed. Thus, the inclusion of such double-income in our analysis of income distribution will serve to indicate the extent of capital accumulation and integrate it into the class analysis of capitalist income distribution.
11. Marx, *Capital*, 3, p. 821.
12. Marx, *ibid.*, p. 834.
13. Marx, *ibid.*, p. 814.
14. It is also likely that this individual will be a member of a union and if this institution is able to gain a monopoly position with regard to the commodity it sells, labor power, then the individual may receive a price for it which exceeds its exchange value. To gain access to the labor power commodity, the buyer pays this monopoly price. The individual would earn, therefore, this differential between the price and exchange value as an additional subsumed class income if the commodity is sold to an industrial capitalist and as an additional non-class income if sold to any other buyer.
15. We are assuming here that board members of industrial enterprises are the first receivers (and distributors) of surplus value. This assumes, in turn, that particular economic, political, and cultural processes are secured whose combined effect is this precise receipt. Such processes include political ones such as the passage of laws in society establishing the board as the personification of the enterprise and the legal representative of the corporate owners; other economic processes include the board's purchase of means of production and labor power; and still other cultural processes include business customs and traditions to socially recognize the board as having the first claim on surplus value and the initial responsibility to distribute it so as to reproduce the enterprise's existence. For further discussion of these points, see Chapter IV of our forthcoming *Marxist Theory: Epistemology, Class, State, and Enterprise*.
16. We assume for simplicity that each of these non-capitalist fundamental class processes involves the production of non-capitalist commodities. All categories are measured in abstract labor hours to derive the total income,  $Y$ . This total thus abstracts from the different capitalist and non-capitalist values produced in and by each class structure.
17. We give the social formation the particular label of one of its constituent class structures if we can demonstrate that one of them exerts the widest and deepest effectivity of them all. Such a demonstration is a major part of Marxist social analysis.
18. For further discussion of this example and its implications, see David Ruccio,

"Optimal Planning and Theory and Theories of Socialist Planning," Amherst: unpublished Ph.D. thesis, Department of Economics, University of Massachusetts, 1984.

19. In *Capital*, 3, pp. 614-813, Marx went to great pains to distinguish these two forms of rent. In Chapter XLVII of Part VI, "Genesis of Capitalist Ground-Rent," he draws a distinction (p. 783) between "rent in the modern sense" (capitalist subsumed class income) and rent "in the social formations where it is not capital which performs the function of enforcing all surplus-labor and appropriating directly all surplus-value." This latter rent derives from the feudal fundamental class process. To abstract from these very different class processes is to miss the central argument of this Part of *Capital*, 3. It is to conflate a capitalist landlord's subsumed class claim to already appropriated (by an industrial capitalist) surplus value with a feudal lord's direct appropriation of feudal surplus labor.
20. Even those few Marxist economists concerned to explore the disjunction between value analysis and the usual empirical measures of income distribution have made little progress. Erik Olin Wright (*Class, Crisis, and the State*, London: New Left Books/Verso, 1979, pp. 126ff and especially pp. 150-53) gets so far as to recognize that wages include the receipts of unproductive as well as productive laborers, but he misses certain non-class elements of wages as well as most of the non-class and subsumed class components of profits. In short, his approach is very incomplete and crude; it misses the basic dichotomy between Marxist class analysis and the data of neoclassical discussions of income distribution. Similarly partial and incomplete are the empirical studies of Shane Mage (*The Law of the Falling Tendency of the Rate of Profit*, unpublished Ph.D. thesis, Columbia University, 1963) and Joseph Gillman (*The Falling Rate of Profit: Marx's Law and its Significance to Twentieth Century Capitalism*, London: Dobson, 1957). They both apparently think that the only adjustment to neoclassical income distribution data needed is an accounting for unproductive labor and its income stream. That done, they proceed to use the adjusted data to "verify" Marxist theory, thereby committing all of the errors discussed in the text. So do A. Glyn and R. Sutcliffe (*British Capitalism, Workers, and the Profit Squeeze*, London: Penguin, 1972), who work with capital and labor shares on the aggregate social level. Similarly, Ernest Mandel makes manufacturing industry profit the residual after constant capital and all wages and salaries have been deducted from industry revenues. Using data from Joseph Steindl and Simon Kuznets, he uses this notion of profits (which contains, as we have shown, both subsumed and non-class income components) directly to confirm Marx's *Capital*, 3, discussion of the tendency of the value profit rate to fall (*Marxist Economic Theory*, Volume 1, translated by Brian Pearce, New York and London: Monthly Review, 1968, pp. 166-67).
21. Paul Sweezy, *The Present as History*, New York: Monthly Review Press, 1953, p. 51.

## The Organic Composition of Capital and Capitalist Development

Bob Rowthorn and Donald J. Harris

The question of what is the long term *direction* of movement in the organic composition of capital in the course of capitalist development, and what are the causes and determinants of that movement, still remains an unsettled and unresolved issue within Marxian economics. The question is important because the presumption of a persistent increase in the organic composition lies at the heart of the conception of a law of falling tendency of the rate of profit as an essential law of motion of the capitalist economy.<sup>1</sup> It is important also because the magnitude of the organic composition and its direction of change are an expression of the underlying process of technological change as it affects the level and direction of development of productive forces. Propositions about the organic composition of capital must therefore rest upon and presuppose a proper understanding of the form of the process of technological change.

These matters have been discussed in depth and with great insight by Paul Sweezy in various works.<sup>2</sup> This paper seeks to provide a new perspective on the organic composition of capital by viewing it in the context of a generalized tendency of capitalism towards uneven and combined development. Changes in the organic composition may be seen to have definite causes associated with the specific conditions under which development occurs. But these conditions may be such as to raise the organic composition as much as to lower it, depending on specific historical conjunctures. There exists no a priori case for supposing a uniform long-term tendency in one or the other direction.

### *Decomposing the Organic Composition*

For a start, it is necessary to have a clear definition of terms and of the relationships involved. For this purpose, it is useful to construct a simple model which captures essential structural properties of the economy. It is possible thereby to identify sharply the types of changes which underlie movements in the organic composition. As a basis for this construction, we follow the two-department scheme first suggested by Marx.

Accordingly, assume an economy with only two productive sectors. Sector 1 produces means of production of a single type, called "machines." Sector 2 produces consumer goods, also of a single type. To produce one unit of output, each sector uses specified quantities of labor and machines, as indicated in Table 1. Production uniformly takes one period of given duration, say, a year. Machines last for  $n$  years. Workers are paid an amount  $c$  of the consumption good per unit of labor time.



Table 1

## Production Coefficients

	Machine Sector	Consumer Goods Sector
Labor	$a_1$	$a_2$
Machines	$b_1$	$b_2$
Consumer Goods	0	0

Now, define the following relationships.

## 1. Labor Values:

$$(1.1) \quad \lambda_1 = a_1 + \frac{b_1}{n} \lambda_1 = \frac{a_1}{1 - b_1/n}$$

$$(1.2) \quad \lambda_2 = a_2 + \frac{b_2}{n} \lambda_1 = a_2 + b_2 \frac{a_1}{n - b_1}$$

$$(1.3) \quad v = c \lambda_2$$

## 2. Technical Composition:

$$(2.1) \quad q_1 = b_1/a_1$$

$$(2.2) \quad q_2 = b_2/a_2 = \mu q_1, \quad \mu = \frac{b_2/a_2}{b_1/a_1}$$

$$(2.3) \quad q = \alpha q_1 + (1 - \alpha) q_2 = [\alpha + (1 - \alpha) \mu] q_1$$

## 3. Organic Composition:

$$(3.1) \quad k_1 = q_1 \lambda_1 = \frac{b_1}{1 - b_1/n}$$

$$(3.2) \quad k_2 = q_2 \lambda_1 = \mu k_1$$

$$(3.3) \quad k = \alpha k_1 + (1 - \alpha) k_2 = [\alpha + (1 - \alpha) \mu] k_1$$

## 4. Value Composition:

$$(4.1) \quad \omega_1 = k_1/v$$

$$(4.2) \quad \omega_2 k_2/v = \mu k_1/v$$

$$(4.3) \quad v = c a_2 (1 + \mu k_1)$$

$$(4.4) \quad \omega = \alpha \omega_1 + (1 - \alpha) \omega_2 = k/v$$

The following observations may be made concerning these relationships. The *labor value* of each output  $\lambda_1$  is straightforwardly defined to be the sum of direct ("living") and indirect ("dead") labor employed in its production. The *value of labor power*  $v$  is the labor value of the workers' consumption per unit of labor time. The *technical composition*  $q_1$  is, as Marx defined it, a measure of the physical amount of constant capital used per unit of labor. In this sense, it may be said to represent the degree of mechanization of the production process. This is a scalar quantity which can be directly summed across sectors to obtain the economy-wide aggregate (weighted by  $\alpha$  the proportion of labor employed in each sector) because of the assumption that only one type of machine is used. In a more complex model of production with heterogeneous means of production used in each sector and throughout the economy, the physical quantity of constant capital would be represented as a vector of diverse inputs. In that context a scalar measure of the technical composition strictly defined in physical terms either for the individual sector or for the economy as a whole would become problematical.

There is no agreement on a strict definition of the *organic composition* and Marx's own use of terms in this area is rather obscure. For present purposes, this relationship is defined here as  $k_1$ , the value of constant capital per unit of labor evaluated in terms of the labor value of machines. It is distinguished from the *value composition*,  $\omega$ , which is the ratio of the components of the total capital in value terms, consisting of constant capital  $k_1$  and variable capital  $v$  (assuming that wages are advanced). The latter provides a broader measure than either the technical composition or organic composition and incorporates both of them as component elements.

Starting from these definitions, we are now in a position to identify the conditions which underlie changes in these relationships. Marx's argument in this connection may be interpreted to mean that the technical composition of capital  $q_1$  ( $i = 1, 2$ ) has a tendency to rise continuously in the course of development, because the average worker either operates more machinery or processes more materials per unit of time. We want to examine under what conditions this tendency is likely to give rise to increase in the organic composition  $k_1$  and the value composition  $\omega_1$ , and what is the pattern of development that would generate persistent increase in the aggregate of these variables.<sup>3</sup> For this purpose, we shall assume throughout that the increase in  $q_1$  is always accompanied by, and indeed *causes*, a reduction in  $\lambda_1$ . Thus, to estimate what happens to  $k$  and  $\omega$  we must take into account both the increase in  $q_1$  and the consequential fall in  $\omega_1$ .<sup>4</sup>

Let us examine first the machine producing sector. This sector has a number of peculiarities worth mentioning. First, its organic composition,  $k_1$ , is related to production conditions in this sector alone and does not depend on production conditions elsewhere in the economy. This is in contrast with that of sector 2 which is related to production conditions in both sectors 1 and 2 as represented

by  $k_1$  and  $\mu$ . There is in this respect, one might say, a hierarchical relationship among the sectors. This follows from the assumed condition of asymmetry in the production linkages among sectors: one sector produces inputs for itself and the other but uses no inputs produced by the other. This sort of asymmetry could exist in larger production systems, taking the form for instance, of diagonalization of the matrix of production coefficients with positive elements on and above the diagonal and all zero elements elsewhere. As will become apparent, this feature has definite implications for analysis of movements in the organic composition which emerge sharply in this simple case. But, in this respect it only serves to sharpen results which would take a more complex form under general conditions of interdependence among many sectors.

A second point is that  $k_1$  is uniquely related to the parameters  $b_1$  and  $n$  which measure respectively the physical quantity of machines per unit output and the durability of machines; but  $k_1$  is independent of the labor coefficient  $a_1$ . Thus, a pure labor-saving innovation which reduces  $a_1$  without affecting  $b_1$  or  $n$  will increase  $q_1$  but have no effect on  $k_1$ . The reason for this is clear. Though the innovation raises  $q_1$  by reducing the coefficient of direct labor, it also has the consequence of reducing  $\lambda_1$  and these two effects are exactly offsetting so as to leave the magnitude of  $k_1$  unchanged. If innovation is of the type which increases machine-use per unit output ("capital-using"), either through increase in the quantity of machines employed  $b_1$  or in the annual depreciation of machines  $1/n$ , then  $k_1$  will certainly rise along with  $q_1$ . But the opposite would be the case if innovation decreases machine-use ("capital-saving"): then  $b_1$  or  $1/n$  will fall and so too will  $k_1$ .

A third point concerns the interpretation of  $k_1$ . To produce a gross output of one machine,  $b_1$  machines must be employed, of which  $b_1/n$  are used up. Hence, the net output of machines equals  $1 - b_1/n$ , and the number of machines employed per unit of net output is  $b_1/(1 - b_1/n)$ . Thus, in sector 1, the organic composition coincides with what is commonly called the "capital-output ratio in real terms". This has a striking implication: a rise in the organic composition occurs in sector 1 if and only if the physical quantity of equipment in use in this sector increases in relation to the net output produced by this sector. Or, to put it differently, if and only if the physical productivity of equipment in sector 1 declines. In the case of sector 1, there is a clear similarity between the Marxian conception of a rising organic composition and the neoclassical idea of "diminishing productivity of capital" or "diminishing returns". However, this similarity is specific to sector 1. It arises from the peculiar fact that this sector is really a "one-good economy" which produces its own means of production. In general, with interdependence in production among many different sectors using heterogeneous inputs, no such similarity exists and the analogy with the neoclassical approach breaks down.

As it stands, the above argument tells us little about the actual behaviour of  $k_1$  as the economy develops. It could rise or fall, depending on the exact nature of

technical progress. For instance, if there occurs a great wave of innovatory investment in sector 1, output per worker may rise dramatically with a relatively small increase in the physical amount of equipment per head. In this case  $k_1$  will fall. This is quite likely to be the case in the early phase of a long-wave, when there is a stock of radical inventions waiting for implementation. Towards the crest of a long-wave, however, when the stock of radical inventions is largely exhausted, the situation will be very different. To produce a relatively small increase in output per worker will then require a considerable investment and, as a result,  $k_1$  may rise. This example provides some indication of what may happen to the organic composition in the course of a long wave as the stock of inventions becomes gradually exhausted. It also gives substantive meaning to the idea that investment may become less productive in the course of expansion, hence to the idea of "diminishing productivity of investment". Now, although plausible, such an argument may not always hold in practice. It may not be true that investment opportunities are exhausted in this way in the course of expansion. And, even if they are, the result may not always be a decline in the productivity of investment, as conventionally measured, or a rise in the organic composition. Moreover, even if the organic composition does rise in the expansionary phase of individual long waves, the above argument still tells us nothing about its behaviour over a much longer period of centuries during which a number of such long waves may occur. In this latter context, there is simply no reason to suppose that the physical productivity of investment in manufacturing industry (which is the arena to which this analysis properly applies) will suffer a *permanent* decline. Marx himself provided no such reason, and neither has anyone else.

There is one special case which deserves special mention because of its historical importance. Consider an economy in the early stages of industrialization where machines are still made largely by hand. Analytically, we may represent such a situation by assuming that  $b_1 = 0$ . This implies, of course that both  $q_1 = b_1/a_1 = 0$  and  $k_1 = b_1/(1 - b_1/n) = 0$ . Now, suppose that mechanization begins in the machine-making sector itself, so that machines are used to make machines. Denote by  $b_1^*$  and  $l_1^*$  the amount of machinery and labor, respectively, required to produce one unit of gross output in the new situation, and suppose that machines have a lifetime of  $n^*$  years. Clearly,  $a_1^* > 0$ . Hence, for the new technique, the technical composition  $q_1^* = b_1^*/a_1^*$  is positive, and so too is the organic composition  $k_1^* = b_1^*/(1 - b_1^*/n^*)$ . Thus, in the transition from hand-made to machine-made machines, the organic composition in the machine-making sector rises from zero, or near zero in practice, to some positive amount. This is the one case in which mechanization in this sector *always* involves an increase in the organic composition. However, once the machine-making sector is already mechanized, further mechanization may be accompanied by either a rise or fall in the organic composition, depending on the exact nature of technical progress.

The preceding discussion concerns the situation viewed from the standpoint of the machine-making sector. Consider now the sector 2 which produces consumer goods. Here, one obvious feature, already mentioned above, stands out. The organic composition in sector 2 depends on production conditions in sector 1, but not the other way around. This one-way effect operates through the labor value of machines used in sector 2. Given  $q_2$ , any change in production conditions in sector 1 which reduces the labor value of machines has the direct effect of reducing  $k_2$ . If, as assumed,  $q_2$  tends to rise, then this effect in turn serves as a countertendency. Consequently, the direction of change in  $k_2$ , as the outcome of both such tendencies, remains ambiguous depending on which is the stronger of the two.

A second feature of sector 2 can be seen from further consideration of  $k_2$ . It is evident that  $k_2 = \mu k_1$ , where  $\mu$  is a "structural coefficient" representing the ratio of technical compositions in the two sectors. Thus there are two sets of factors which underlie movements in  $k_2$ . One is the process of technical change in sector 1 insofar as it affects movements in  $k_1$ . Such movements have a direct one-way effect on  $k_2$  and, other things being equal, on the aggregate organic composition  $k$ . In this respect, movements in  $k_1$  may be said to play a distinctive role in the overall movement of  $k$ . The other is the process of *uneven development* of production conditions in the two sectors as represented by changes in the structural coefficient. In particular, given  $k_1$ , it is the ratio of technical compositions which matters for determining movements in  $k_2$ . Hence, it is their relative rate of change which matters. If the technical composition in both sectors increased at the same rate there would be no change in  $k_2$  except for that due to changes in  $k_1$ . Note that uneven development in this sense may serve either to reinforce the effect of movements in  $k_1$  on  $k_2$ , hence on the overall movement of  $k$ , or to counteract it. Therefore, the ambiguity in the direction of movement remains, depending on the specific underlying pattern of technical change.

Suppose now technical change starts first in the consumer-goods sector so as to raise the technical composition  $q_2$  in that sector while production conditions in the rest of the economy remain virtually stagnant. This reduces the labor value of consumer goods,  $\lambda_2$ , but has no effect on the labor value of machines,  $\lambda_1$ . The organic composition in sector 2 will therefore rise and, with it, if the distribution of employment remained the same, the aggregate organic composition. Correspondingly, the value composition also rises. Evidently this unambiguous result is due to the specific historical pattern of uneven development assumed to be operating in this case. But as soon as technical change breaks out in sector 1, no matter what specific form it takes, an additional factor comes into play due to the associated changes in  $k_1$  and  $\lambda_1$ . This will tend systematically to alter the previous result, either reinforcing it or counteracting it depending on the specific form of technical change.

So far as movements in the aggregate level of the variables are concerned, an

additional factor which must be taken into account is the weight of the different sectors as represented here by the proportion of employment in each sector. These weights are unlikely to remain constant in the development of the economy and must be considered to vary in specific ways in accordance with the underlying process of technical change itself and with the uneven development of the different sectors. In this connection, it is reasonable to suppose that, as the extension and elaboration of the machine-making sector proceeds along with the growing "mechanization" of the production process, the weights will shift in favor of the machine sector. That change, taken by itself, will affect the aggregate variables, the direction of this effect depending on whether  $\mu \leq 1$ .

The preceding analysis makes it clear that even in the simplest model, there are complex changes taking place in the economy which may drive the organic composition of capital in one direction or another. Taken by itself, the organic composition as an aggregate measure (likewise the value composition) gives no information as to exactly what those changes are and how their specific combination differs from one period to another. It is therefore necessary to "go behind" this measure or to decompose it, in seeking to understand those changes. When that is done, some significant results follow.

First, we infer that it is the specific pattern of uneven development taking place in the individual sectors and their combination through the interdependent structure of the economy that determines the overall movement of the organic composition. In this respect we may say that the movement is determined by the underlying process of *uneven and combined development*. Suppose, for example, that technical change in the sectors producing means of production fails to keep pace with technical change in the sectors which use those means of production. The unit values of means of production will rise *relative* to those of output in general, and the result will be an increase in the organic composition. Such uneven development is frequently ignored in Marxist discussions of the falling rate of profit, yet it was an element in Marx's own conception of this problem, and is often very important in practice.

A second factor, revealed by this analysis, which may account for a rising organic composition, is the conventional one of declining investment productivity. This was referred to by Keynes as the "declining marginal efficiency of investment" and by the neoclassicals as the "declining marginal productivity of capital." This factor derives from the possibility that it may become more difficult to raise labor productivity, and to do so may require the use of ever larger doses of fixed capital. In no matter what sector it occurs, and for whatever reasons, such a decline in investment productivity will tend to increase the organic composition both in the sector itself and, possibly, in other sectors which depend on it. Many Marxist versions of the falling profit rate theory are of this variety. Although differing from the neoclassicals as to exactly why productivity is declining, they share with them the notion that such a decline is

what explains the falling profit rate.<sup>5</sup>

In what follows we argue the case for significance of uneven development as a factor determining movements in the organic composition in the actual historical course of capitalist development. Brief attention is given to the question of what role diminishing productivity of investment might play in that process.

### *The Development of Capitalism*

The basic general point to be made here is that any analysis of the historical development of capitalism must recognize that capitalism develops unevenly. This is so in two distinct senses.

First, capitalism comes into existence initially in certain particular sectors and regions, and in an environment of non-capitalist relations of production with which capitalist producers must interact for the purpose of securing some of their requirements of production and consumption. Only by a subsequent process of expansion and development does capitalism subordinate these non-capitalist spheres. Even today this process is by no means complete.

Second, within production activities already established on a fully capitalist basis there is a recurrent pattern of uneven development. This is associated with the process of technological change, the evolution of new production sectors and regions and retardation of older ones, the concentration of capital, and so on.

Our basic thesis is that long term movements in the organic composition of capital can be understood only with reference to this dynamic of uneven and combined development.

The fact that technological change and sectoral expansion rates of different industrial sectors is highly uneven is readily apparent from cursory examination of the historical record. Viewed in broad terms, one can distinguish a number of phases occurring over the past two centuries:

1. Early 19th century: fast technical progress in consumer goods production, slow progress in transport and production of means of production.
2. Middle 19th century up to World War I: transport revolution, more advanced techniques of production in making means of production.
3. World War I to the present: consumer goods dynamism accompanied by dynamism in production of means of production. Underlying details of these broad trends have been well documented in a large number of studies. These studies confirm the existence of a general pattern of unevenness in the dynamism of technological change as between different sectors of the economy of any given country, as well as differences in timing and sequencing of changes across countries.<sup>6</sup> The recent work of Chandler is of special interest and relevance in this

regard.<sup>7</sup> In a comprehensive overview of United States experience, this work shows that, in the period examined, the technological change occurs at first more slowly in production than in distribution. In both cases, the change derives from prior changes in transportation and communication infrastructure. The revolution in production itself waits upon the invention and application of machinery. Machine processes first revolutionize the "mass production industries" through an increased rate of "throughput" (economies of speed). This has the noted consequence of raising capital per worker in those specific industries. But the possibility of achieving high rates of throughput depended on the basic technology of the existing production processes in different sectors of the economy. Consequently, in certain sectors where there were obstacles to the use of machine technology, mechanization was delayed and those sectors (such as agriculture, construction, mining, and metal working) remained relatively "retarded," some even until today. The revolution in the metal working and machine making industries, when it did come, was especially dramatic and far reaching.

Viewing this particular experience, as well as the more general picture, one could say that in the early period means of transport were very expensive and this tended to raise the organic composition of capital via the cost of raw materials. This effect was compounded by another arising from the relations of trade between capitalist and non-capitalist producers and the uneven development of the two spheres. In particular, insofar as labor productivity rose faster in capitalist production units than in non-capitalist units due to the greater technical dynamism of the former, this would have tended (under market competition) to shift the terms of trade against capitalist producers, specifically for raw materials and food items versus manufactured goods. Even so, there is a certain ambiguity here in the overall effect, at least as regards the value composition of capital, since raw materials enter in the numerator and food in the denominator of that relation. Similarly, the subsequent revolution in transport was an important factor in cheapening food and raw materials. Again, this would have had a dual and ambiguous effect on the value composition while serving to counteract any prevailing tendency for the organic composition to rise.

The process of mechanization of industry, or the transition from *manufacture* to *machinofacture*, is typically identified with a rising tendency of the organic composition of capital. This is the process that Marx himself was closely concerned with and keenly observed.<sup>8</sup> It is now commonly recognized to have been marked by a rise in capital values associated with increased use of machinery, increased throughput, and the like. Nevertheless, it must also be recognized that this process itself was an uneven one. Moreover, that unevenness accounts both for the tendency of capital values to rise and for the operation of forces systematically tending to lower capital values. As regards



the latter, what is of crucial significance is the development and transformation of the metal working and machine making industries (the so-called capital goods industries). Though the process of transformation may have been delayed in these sectors relative to others, when it does come it has a powerful and continuing impact throughout the entire economic structure.<sup>9</sup> In general, once a fully elaborated and articulated capital goods sector becomes fully established on the basis of modern technology and scientific management techniques, then a process of continuous improvement in labor productivity becomes built into the system, systematically lowering values and prices of capital goods.

At the same time, capitalist domination of production in previously non-capitalist spheres becomes more widespread, subordinating these activities to the dictates of capitalist rationality, competition, and technological change. This must have the consequence of cheapening relative values of the commodities thereby affected. This process is, however, by no means complete. There are still areas in the world capitalist system in which pre-capitalist relations remain entrenched. Within the advanced countries these are mainly in the service sector (e.g.: retail distribution, the legal system, medicine, etc.). Moreover, the demand for many of these services expands in the course of development. They can therefore act as a drag on the system. This will be revealed as a shift in the terms of trade in favour of services against goods. Moreover, it is not simply a question of capitalist versus non-capitalist relations of production. Even in the clearly capitalist services, productivity growth is often much slower than in manufacturing. The same is true even *within* manufacturing and other spheres of goods production where *administration* is often more difficult to revolutionize than the actual transformation of materials. This shows up in practice as an increase in the proportion of total cost absorbed by administration and other similar overheads. This tendency is especially observable in really dynamic economies like Japan. Here, the arguments of Kaldor about dynamic economies of scale in manufacturing may be found to be quite relevant.<sup>10</sup>

In addition to survivals of old forms of production in the service sector (artisan style, petty traders, etc.), there are also major sectors *created* by capitalist development which are shielded from competition and this contributes to their lack of dynamism. Of these, the most important are the so-called community services (education, health, public administration) most of which are either run by the state or funded by the state. In general, these community services enjoy a monopoly and are shielded by competition. Moreover, they usually provide free or heavily subsidized services (or dis-services!) whose cost is paid by the taxpayer rather than by the direct consumer. As a result, these services are not subject to the law of value as there is no spontaneous economic mechanism which regulates them and forces them to adapt. From this, among other factors, arises the now well recognized problem of the "fiscal crisis of the state."<sup>11</sup>

Typically, Marxists have analyzed the various activities listed above (administration, private and public services) in terms of the distinction between productive and unproductive labor. Whatever may be the advantages or disadvantages of this approach, it seems to us much more enlightening and fruitful to analyze them in terms of uneven development. In fact, what one could say is that a rising organic composition of capital, if and when it occurs, is merely one specific expression of a more general pattern of uneven and combined development. Similarly, the fiscal crisis of the state and all the problems associated with rising service costs are another expression of this more general pattern.

Natural resources, raw materials, and energy play a special role which can also be integrated into this conception. The idea of diminishing productivity of investment is commonly supposed to apply in this particular context, that is, in the context of "limited resources." Now it can be readily granted that there are serious ecological limits to the long-term growth of the world economy. There *are* limited sources of supply of particular raw materials and energy. Their production conditions are subject in some meaningful sense to diminishing returns. But the existence of such diminishing returns has always to be considered as being *relative* to a given pattern of use and to a given technology. As such, it constitutes a problem when the volume of demand associated with a particular pattern of use under existing technology runs ahead of what can be produced with that technology at existing costs and prices. Under these conditions, costs and prices tend to rise. They rise even more sharply, going beyond any relation to values in such cases, because of the monopoly structure of ownership and property relations peculiar to such commodities. The altered structure of prices and values occurring in those circumstances may in turn generate a tendency for the organic composition of capital to rise. This tendency is then the outcome of the underlying disproportionality in the development process. But, typically, that situation also has built into it mechanisms by which an adjustment takes place both in the pattern of demand and in the existing technology so as to create substitute products (as, for instance, in the case of synthetic fibers) and to shift demand to available and newly created alternatives. This adjustment takes place in part through the response of capitalist producers to the profitable investment opportunities created by the situation of limited supply itself. It is also, in part, the result of deliberate policies of the state. There may, of course, be significant lags in the adjustment process, of long or short duration depending on the peculiar characteristics of particular technologies, on limitations in the scientific principles available to be deployed, and on the social and political changes that are required. There may be a prolonged crisis before the "supply limits" are lifted or until the system adjusts. The adjustment itself may entail significant structural transformations. But the adjustment has usually occurred, and in finite time, in all significant cases from past development of capitalism.

Whether there are absolute and insuperable barriers to be hit upon in the future seems not a matter of worthwhile speculation.

### Conclusion

The preceding discussion suggests that any tendency for the organic composition of capital to rise (and, associated with this, a falling tendency of the rate of profit arising from this cause) is (1) a historically contingent circumstance associated with and derivable from a general process of uneven and combined development taking place within capitalism, (2) not a "general law" derivable from the inner logic of capital.

The supposed tendency towards rising organic composition of capital, if and when it appears, is ultimately brought to a halt by the very process of capitalist development itself, insofar as that process entails

1. successive and successful incorporation into capitalism of spheres of economic activity that were previously operated on a non-capitalist basis.
2. elaboration and consolidation of a full-fledged capital goods industry having a built-in capacity to reduce values of produced means of production.
3. adjustment processes induced by the underlying disproportionalities that the development process generates.

If these arguments hold, then it makes no sense to propose one type of effect, that of a rising organic composition of capital, as the dominant and fundamental tendency, while the other effect which counteracts it is supposed to be a merely incidental and accidental countertendency. Such an approach amounts to pure mystification.

Finally, the arguments presented here lead us to question whether the concept of the organic composition of capital itself is a meaningful expression of the complex and diverse conditions and the changes occurring in them over time that this concept is supposed to measure. Like all such one-dimensional measures of a complex reality, it may disguise much more than it actually reveals.

We end up, then, with the conclusion so succinctly expressed by Sweezy four decades ago: "Behind the rising organic composition of capital lies the process of capital accumulation, and it is here that we should look for forces which tend to depress the rate of profit."<sup>12</sup>

### Notes

1. For an analysis of the relationships involved in this conception, see D. J. Harris, "Accumulation of Capital and the Rate of Profit in Marxian Theory," *Cambridge Journal of Economics*, 7 (September/December, 1983), pp. 311-330, and "Are There Macroeconomic Laws? The 'Law' of the Falling Rate of Profit Reconsidered," in *The Economic Law of Motion of Modern Society: A Marx-Keynes-Schumpeter Centennial*, M. J. Wagener & J. W. Drukker, eds., New York: Cambridge University Press, 1985.
2. See, for instance, P. A. Sweezy, *The Theory of Capitalist Development*, New York: Monthly Review Press, 1956, Chapter 6; *Modern Capitalism and Other Essays*, New York: Monthly Review Press, 1972, pp. 127-146; "Some Problems in the Theory of Capital Accumulation," *Bulletin of the Conference of Socialist Economists*, No. 6 (Autumn, 1973); *Four Lectures on Marxism*, New York: Monthly Review Press, 1981, pp. 46-54.
3. We ignore the unusual and uninteresting case of a reduction in  $q_1$ .
4. This was recognized by Marx in arguing that mechanization in the machine-making sector brings with it its own countertendency: on the one hand, it increases the number of machines used per worker in this sector; but, on the other hand, it reduces the unit value of these same machines. He goes so far as to suggest that "the mass of the elements of constant capital may even increase, while its value remains the same, or falls." But, without further argument, he dismisses this possibility as occurring only "in isolated cases." See, *Capital*, Volume III, New York: International Publishers, 1968, p. 236.
5. This is the interpretation given to E. Mandel's falling profit rate theory in R.E. Rowthorn, *Capitalism, Conflict, and Inflation*, Austin: University of Texas Press, 1980, Chapter 4.
6. For a relevant discussion of European experience, see I. Svernilson, *Growth and Stagnation in the European Economy*, Geneva: United Nations Economic Commission for Europe, 1954. For evidence on the longer-term experience of the world economy, see D. S. Landes, *The Unbound Prometheus*, Cambridge University Press, 1969; W. A. Lewis, *Growth and Fluctuations 1870-1913*, London: Allen and Unwin, 1978; W. W. Rostow, *The World Economy, History and Prospect*, Austin: University of Texas Press, 1978.
7. See A. D. Chandler, Jr., *The Visible Hand, The Managerial Revolution in American Business*, Cambridge, Ma.: Harvard University Press, 1977.
8. See *Capital*, Volume I, New York: International Publishers, chapter 15.
9. For a discussion of these effects see, for instance, N. Rosenberg, *Perspectives on Technology*, Cambridge University Press, 1976, Chapter 1 and 8.
10. See N. Kaldor, *Causes of the Slow Rate of Growth of the United Kingdom, An Inaugural Lecture*, Cambridge University Press, 1977.
11. On this, see J. O'Connor, *The Fiscal Crisis of the State*, New York: St. Martin's, 1973.
12. P. A. Sweezy, *The Theory of Capitalist Development*, p. 105. This was originally published in 1942.

# Monopoly Capital vs. the Fundamentalists

## Howard J. Sherman

One of the virtues of the journal, *Monthly Review*, and indeed of all the writings of Paul Baran, Paul Sweezy, and Harry Magdoff, has been the nondogmatic character of the approach; there is no line that must be taken, there is no single, perfect, vanguard party; there is no TRUTH. Marx is taken as a profound thinker, one who led the way in many areas, but not someone who is divine or perfect. Marx gives us a method of approach, insights, and inspiration, but not all the answers—nor even all the questions, since many of our most important present questions have arisen since his day. Those who take this independent, Marxist approach might be loosely called the Monopoly Capital school, after the important book by Baran and Sweezy—even though many of those lumped in this group disagree with many specific points and theories in that book.

A quite contrary group is represented in the United States mainly by Anwar Shaikh, John Weeks, and Willi Semmler, though they too differ among themselves on some points. All three are proud to be called orthodox Marxists, and they might be labelled Fundamentalists, since they all agree that the fundamentals are all presented by Marx. Since all the fundamentals are in Marx, they tend to argue by authority (if Marx said it, it must be right). Moreover, they all tend to say “Marx’s theory is” when they mean “my interpretation of Marx is.” It should be emphasized that all three are careful writers and scholars who have made interesting contributions to Marxist theory; I have the highest respect for all three of them, but must express my profound disagreement with their approach.

In their own thinking, the Fundamentalists seem to label various Marxists and related thinkers as either good guys or bad guys. The good guys are Shaikh, Weeks, Semmler and . . . Lenin. Among the bad guys, they cite in various of their works: Frederick Engels (!), Samir Amin, Maurice Dobb, Michael Kalecki, Oscar Lange, Paul Baran, Josef Steindl, Harry Magdoff, Eric Olin Wright, Thomas Weisskopf, Paul Sweezy, and Howard Sherman. I will label, as they do, all of the bad guys as the Monopoly Capital group, in spite of the

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obvious fact that we have an enormous number of differences. On any specific issue, the Monopoly Capital "group" differs strongly among itself, but it is probably true that all are characterized by a somewhat non-dogmatic approach to Marx. One should note that Marx himself should probably be listed among the bad guys, who are not good Marxists, because the most striking thing about Marx is his willingness to question all received doctrine, including his own, especially under new circumstances. The essence of Marx's dialectic method is the recognition that the world really does change, and that new situations may be qualitatively new, not merely incrementally changed. Anyone who does not allow for new situation, new questions, and really new theories, seems to me to be a really bad follower of Marx.

### *The Major Differences*

According to the Fundamentalists, the good guys are revolutionaries who follow Marx, while the bad guys are reformists and revisionists, who are really anti-Marx. For example, the Fundamentalists claim:

Almost from the moment *Capital* was published, Marxists divided into two camps: those who, like Marx, concluded that capitalism could not be reformed to any basic degree and required violent overthrow by the working class and its political party; and those who thought that Marx's analysis could provide the basis for the reform and rationalization of capitalism, and a peaceful, even parliamentary transition to socialism.<sup>1</sup>

The notion that Sweezy and Baran and Magdoff are not revolutionary has no relation to any evidence that has ever come to this author's attention (nor is it true of most of the other Marxists listed).

According to the Fundamentalists, none of the bad guys allow any important role for value theory. In this view, the denigration of value theory begins with Engels—this astonishing position is discussed below. The bad guys (the Monopoly Capital group)—such as Engels and Sweezy—have a "fetish" for commodities and other "surface manifestations" of value, such as "prices, profits, and wages." The good guys (the Fundamentalist group), on the other hand, dig below the surface all the way down to value theory.

The Monopoly Capital group (according to the Fundamentalists) also deny the law or tendency of the falling rate of profit—though Maurice Dobb has a lengthy favorable discussion of the falling rate of profit theory—and Sweezy has often discussed it as a tendency (beginning in his book, *Theories of Capitalist Development*). To be a good Fundamentalist, you must be a true believer in the labor theory of value and in the falling rate of profit. For

example, John Weeks argues that Marx's work is characterized by "the central role of the law of value and its most important manifestation, the tendency of the rate of profit to fall. This interpretation of Marx's work . . . can be called . . . 'orthodox' Marxism . . ."<sup>2</sup> In the Fundamentalist view, the falling rate of profit is Marx's most important finding from his theory, not the exploitation of workers or the class struggle based on exploitation!

In the fundamentalist view, the Monopoly Capital group all concentrate mostly on analysis of the abuses of monopoly, and believe that if only monopoly were eliminated, capitalism would work perfectly. The good Marxists (Fundamentalists) recognize that Marx did not pay much attention to the abuses of capitalism because he recognized that it is the ordinary routine working of capitalism that is evil. The Fundamentalists assert that monopoly power is much exaggerated, that there is mostly competitive capitalism, and that it is that system that Marxists should fight against.

According to the Fundamentalists, all of the Monopoly Capital group are "circulationists," which is a pretty horrendous sounding term. In this view, the Monopoly Capital group try to formulate crisis theory "without value theory. This is done by considering crises divorced from the production of commodities and emphasizing the circulation of commodities. Such theorists can be identified as 'circulationists,' and their theories take two forms: 'under-consumptionism' and the 'profit-squeeze hypothesis.'"<sup>3</sup> The ultimate Fundamentalist insult is that "It is probably more correct to identify Marxists who hold to such a crisis theory as neo-Keynesians or radical Keynesians."<sup>4</sup> Since Sweezy and Magdoff are elsewhere identified as underconsumptionists, it follows that Sweezy and Magdoff are neo-Keynesians. Someone should tell that to Paul Samuelson.

The point of all this is that name-calling and labelling people is a terrible way to argue political-economy. The issue is not who follows some quote of Marx, or who agrees with Keynes on some point; the issue is what is the best political-economic analysis of reality and how to change it.

### *Engels and Value Theory*

According to the Fundamentalists, "Engels completely misconstrued Marx's value theory."<sup>5</sup> Since Engels edited all of volumes 2 and 3 of *Capital*, one wonders how the Fundamentalists can trust anything in those two volumes—or does the orthodox Marxist pay attention only to Volume I?

By taking one quote out of context, an elaborate theory is built claiming that Engels believed that "capitalist exploitation is achieved through a voluntary agreement, a sort of social contract in which one group chooses wage slavery and the other group greater profit."<sup>6</sup> This astonishing conclusion is reached by misconstruing Engels' discussion of the way in which the transition took place



from the putting out system to the factory system. Since Engels thought there were powerful economic forces pushing the artisan to accept factory employment, it is claimed that Engels is painting a voluntary position.

The preference for a pure theory of value, which determines everything, over the rough and tumble of history and the class struggle comes out dramatically in a Fundamentalists attack on Engels on exploitation. "For him [Engels], profit arises purely from a change in the distribution of the net product of labor, and the precise rate of surplus value is determined at the outset separately in each production unit, depending upon the bargain struck between exploiter and exploited."<sup>7</sup> So Engels is a "distributionist," who thinks that class struggle in the bargaining process determines wages, rather than the pure operation of the law of value in the production process. This attempt to purify Marx and defend him from Engels would appear to eliminate Marx's main point, the determination of wages in a class conflict (given supply and demand conditions) resulting in the exploitation of workers.

It is not correct to contrast the law of value in some abstract sense with the class struggle. The Fundamentalists appear to think that mysterious, deep economic relations in the production process determine wages and profits, so such trivial things as trade unions or class conflicts cannot disturb these elegant mathematical relations. For Marx (and Engels), one begins with the actual, historically specific, institutions of capitalism, propertyless workers facing the owners of capital. These institutional relations of capitalism ensure that a class conflict will take place in the process of production, which determines the distribution of the product between capitalists and workers.

It is totally wrong to contrast deterministic iron laws of value or wages to the freedom of workers to choose to struggle and themselves determine the outcome. Engels, in *Anti-Duhring*, spelled out the position, also held by Marx, whereby freedom is an aspect of determinism and determinism is an aspect of freedom. As Marx puts it, human beings make their own history within certain historically given conditions. Marx's tirade against Citizen Weston is exactly on this point in terms of the determination of wages. Weston thinks that there is a wage fund determining wages, no matter what workers and capitalists do. For Marx, on the contrary, there is a minimum wage level given by an historically determined culturally conditioned subsistence level. There is also a theoretical maximum at the point where wages take all of surplus value, so the lack of profits would end capitalist production. Between these limits, Marx explores the real life situation of a class conflict between workers and employers under certain conditions of supply and demand. He identifies the class struggle both at the trade union level and at the level of the state and legislation affecting labor struggles. All of that is spelled out in *Capital* as well as in his pamphlets on *Wage-Labor and Capital* and *Value, Price and Profit*. Marx is correctly scornful of those, like Citizen Weston and the Fundamentalists, who seem to think that prices and wages are determined by the iron laws of value, with no

role or affect by workers' struggles.

Writers such as Maurice Dobb and Paul Sweezy have written vast amounts on the theory of value, bringing it to hundreds of thousands of readers, but never forgetting its concrete determination through actual class conflict in a historical setting. This seems to be the sin of Engels, Dobb, and Sweezy in the eyes of the Fundamentalists.

Moreover, Dobb always stresses that one must ask what the purpose of the labor theory of value is, and he stresses that any concept is designed to do particular things; it has no eternal being. To put it another way, people make definitions; the most useful definition in a particular case depends on the problem. Dobb strongly defends the labor theory of value as the best approach to an understanding of how workers are exploited. But he notes that Marx was not interested in the price of a cup of tea versus a cup of coffee, so the labor theory of value is not necessarily the best tool for understanding relative prices of tea and coffee. This is quite opposite to the Fundamentalist view, which sees certain definitions given by Marx, and therefore correct for all times and places. But the "rate of profit," for example, is not something given by God or Marx. It may be taken before taxes or after taxes, to give just one example. Which is used depends on the problem at hand, not on what Marx happened to say in relation to some other problem. Definitions are not right or wrong; they are useful tools of communication and understanding or they are not useful.

Thus, in the eyes of the Fundamentalists, Sweezy has another major sin. He and Baran use the term "surplus" in examining the macro problems of a capitalist society. Yet it is quite obvious that this term does not mean the same thing as "surplus value." Does that make it wrong? No, they are using a different term to apply to a different problem. Whether it is useful—for example, in understanding capitalist waste or military spending or problems of economic development—is the only question. One can have many criticisms of the uses of the term "surplus" by Baran and Sweezy, but it is not legitimate to criticize it merely for being a different use than the "surplus" of surplus value. Its use does not mean that Sweezy suddenly forgot all of his excellent exposition of the concept of surplus value, which has converted so many of his readers to a Marxist economic view.

Baran and Sweezy use a new term partly because the situation has really changed since the day of Marx—as Marx would certainly have expected. One of the new things they emphasize with the term is the existence of a level of monopoly power unheard of and beyond the imagination of Marx's day. We shall see below that the Fundamentalists deny this new situation in their attempt to hold on to the old theory in its "pure" form.

Another new phenomenon—economic planning—is similarly misunderstood or rejected as a proper place to use value theory by Weeks and other Fundamentalists. In Marx's day, there existed no planned economies. Today, central planning is a fact of life in the Soviet Union and elsewhere. Its

complexity and the need for some kind of pricing system (whether real or shadow prices) in order to make calculations is also a fact of life. It was perfectly reasonable for Marx to ignore the problems of socialist planning, but it is certainly not reasonable today to act as if these problems require no theory of value. The Fundamentalists deny that the functioning of a planned economy requires any use of a theory of value. They say: "The irrelevance of profitability differentials among industries under socialist relations is relatively uncontroversial."<sup>8</sup> That would be news to thousands of Soviet, East European, and Chinese planners. If there is different profitability in different sectors, it is the most important signal that a change is needed in allocation.

Calculation is needed so that planners can know (a) which mix of products should be produced for the good of consumers and society? and (b) which type of technology will allow us to produce with the least human cost? There is nothing intuitively obvious in the answers to these questions, so some kind of systematic valuation of products is very much required. What really bothers the Fundamentalists is that the old concepts cannot merely be applied as under capitalism. Indeed, the same terms take on new meanings, or we must use entirely new terms. Thus, prices in a capitalist economy are determined by market competition (with more or less use of monopoly power). But prices in a planned economy must be planned and set by some authority. Not only is the source of prices different, but their role is different. They must now aid calculation for technology and inputs, but they do not necessarily determine income distribution—which may be guided by a different set of "prices." Moreover, profit rates are now determined by the centrally set prices as well as production conditions. Furthermore, the new profit rates do not *automatically* lead to production changes, as under capitalism, but are signals to planners as to where they should or should not make changes. So the sources and role of prices and profits are changed, but they are still very important. One can argue whether it is useful or not to call such values, prices, and profits by those names or give them new names. But that is a semantic question, not a question about reality.

It becomes clear that the Fundamentalist habit of sticking to a simple statement of a pure law of value, for capitalism and only capitalism, gets them into a number of strange overstatements and errors. For example, one of the Fundamentalists argues strongly that the use of credit-money has not added anything really new to the functioning of capitalism—but that it always comes back to gold, which is a commodity to be explained by the law of value (the emphasis on gold sounds more like the right-wing economists).<sup>9</sup>

The Fundamentalist view of value and capitalism leads them to say that "It will become clear that value systematically rules exchange only under capitalist relations of production and in no other system, historical or hypothetical."<sup>10</sup> Yet there are certainly valuations and calculations of values made under planned, socialist conditions as a vital part of and necessity to planning. It is

possible to dismiss these as something different than capitalist value relations (and they are different). The very wide generalizations by the Fundamentalists, however, would also rule out the law of value in a market socialist economy, such as Yugoslavia. Where enterprises are not privately owned, but most production and price decisions are made at the enterprise level in the context of a competitive market (as in Yugoslavia and Hungary), then the law of value clearly works just the same as under capitalism—with allowances for various kinds of state intervention in Yugoslavia or Hungary or the United States! In any theory (including Marx's theory) a set of enterprises that compete in the market and set their own prices will be subject to the same set of laws of value and prices, regardless of whether they are privately or collectively owned. In fact, these structural similarities lead to exactly the same problems in Yugoslavia and the United States, from monopoly to lack of effective demand and unemployment. If the Fundamentalists would deny the importance of monopoly or lack of demand in the United States, they would have to make the same denials in Yugoslavia.

### *The Importance of Monopoly Power*

The Fundamentalists vastly understate the importance of monopoly power. One writes: "The monopolies that stalk the pages of the writings of Baran and Sweezy have no existence beyond the works of those authors. For these monopolies, which will set prices, control and suppress innovation, and the like, are idealistic resurrections of 'feudal monopoly, before competition.'"<sup>11</sup> It appears that the term "feudal monopoly, before competition" comes out of Proudhon, so Baran and Sweezy are hidden Proudhonists and suffer guilt by association—a peculiar way of conducting a scientific argument. In reality, one can cite the data for pages and pages showing that 3 or 4 corporations control most of the assets and sales in each industry, a thousand giants control the majority of all corporate assets, monopoly power has had a major effect in raising prices in depressions, and so forth. Of course, no one, least of all Baran and Sweezy, would argue that the monopoly firms set their prices "at will." Like the working class, or small business, they operate under particular constraints at particular times. It is an essential characteristic of monopoly power, however, that such firms have control over supply, so they may choose to restrict the supply to raise prices or increase the supply while lowering prices. Small, competitive businesses have no such choices but must follow the market price. Even neoclassical economists know these facts, so it is a strawman charactature to insist that any Marxist (such as Sweezy or Magdoff) overlooks such facts.

It is even stranger to hear that writers such as Sweezy or Baran or Magdoff deny the reality of competition. The Fundamentalists contend: "The overall

view of monopoly capital school is that, in the present stage of capitalist development, competition has been virtually eliminated, and this has fundamentally altered the nature of capitalist society."<sup>12</sup> In this view Baran and Sweezy think that competition is not an integral part of Marx's picture of capitalism, but one that may be stuck in or dropped at will. A Fundamentalist argument by John Weeks says:

Baran and Sweezy have written that "the Marxian analysis of capitalism still rests in the final analysis on the assumption of a competitive economy." This statement implies a certain method on Marx's part; namely, that competition has a particular status in his analysis, the status of an externally imposed assumption.<sup>13</sup>

How Baran and Sweezy's statement implies this conclusion is beyond my understanding.

The Fundamentalists, such as Semmler, argue that they truly follow the view of competition found in Marx and Lenin, while the monopoly capital theories ignore these views and "neglect" Lenin's *Imperialism*.<sup>14</sup> Semmler says, quite accurately, that Lenin argued that economic concentration and monopoly power abolishes competition among the companies that are destroyed or merged together, but that fierce competition among the monopoly giants (and between them and the remaining smaller firms) continues unabated. It is astonishing to hear that writers such as Baran and Sweezy or Magdoff or Dobb neglect Lenin's *Imperialism*, when they have written so much about it. It is just as astonishing to hear that they deny continuing competition. For example, Harry Magdoff writes: "... the very process of concentration and centralization of capital is spurred by competition and results in intensifying the struggle among separate aggregates of capital, albeit on a different scale and with altered strategies."<sup>15</sup>

Attacking Eduard Bernstein's thesis that monopoly brings stability, Lenin argued instead that monopoly would increase the instability of capitalism. All of the writers whom Semmler attacks—from Dobb to Sweezy to Sherman—would agree with Lenin's thesis that *monopoly increases instability*, though they might disagree on precise mechanisms. In the case of the book by Sherman<sup>16</sup>, cited by Semmler, it so happens the main purpose of writing that book was to prove Lenin's thesis that monopoly increases instability.

#### *Issues Concerning Monopoly Power*

According to the Fundamentalists, the Monopoly Capital group of contemporary Marxists (from Kalecki to Sweezy to Sherman) believe that monopoly power "becomes the dominant force in the economy, bringing about

a persistent hierarchy of profit rates."<sup>17</sup> It is true that these Monopoly Capital theorists do indeed argue that the U.S. economy is dominated by corporate giants, and that such an economy has many features and functional relations that differ profoundly from those of England in Marx's day. They do mostly find that the giant corporations have sufficient power to have higher profit rates than the average, but they consider that this is only *one* feature of monopoly capitalism. None of them believe that these differential profit rates are the only significant feature or defining feature of monopoly capitalism, as the Fundamentalists seem to think they do. Moreover, they do not think that these new features of monopoly capitalism in any way make invalid Marx's analysis of some of the basic, continuing features of capitalism, such as the exploitation of workers or the causes of capitalist crises (both exploitation and crises are *intensified* by monopoly capitalism).

According to Semmler, the Fundamentalists believe that: "Monopoly profit is related to special cases and, in the long run, is threatened by competition from other capitals."<sup>18</sup> This group believes that the fundamental laws and functional relations of capitalism have not changed—at least, in any way significant to the points at issue—since Marx wrote about them. They do not believe that monopoly capitalism is a new stage; they do not believe that monopoly is important enough to change any functional relations of capitalism; and they do not believe that the giant, oligopoly corporations are able to make consistently higher profits than the average.

What makes two groups of Marxists oppose each other so vehemently over these issues? The reason appears to be that each group sees the logic of the other group sinking it back into the viewpoint of neo-classical economics and the politics of liberalism, rather than socialism. The Monopoly Capital theorists believe that the dominance of the giant, oligopoly corporations is the reality of our present economy; and that this reality means the extreme intensification of the evils of capitalism, including inflation, depression, and exploitation. Whenever they hear someone say—as liberal economists are always doing—that monopoly may be bad, but it is not so important as you think, or that its effects on prices and profit rates are temporary, or that competition will win in the long run, they immediately see the usual neoclassical approach. The neoclassical approach leads to the conclusion that a few reforms of the anti-trust laws will easily get rid of monopoly; then competitive capitalism will reduce or eliminate inflation, depression, and exploitation. Notice that none of the monopoly capital school would agree with the conclusion about competitive capitalism even if monopoly were actually unimportant or easily eliminated.

On the other hand, the Fundamentalists look at the same liberal argument and come to exactly the opposite conclusion about the main danger to a radical perspective. The liberals stress that many evils are caused by monopoly power, but that it is temporary, and once the country gets back to competitive capitalism, everything will be wonderful. The Fundamentalists agree that

monopoly power is temporary and competition is the rule—but they stress that Marx's analysis of competitive capitalism shows that this system causes exploitation, crises, and so forth. They are afraid that if Marxists base their critique solely on Monopoly, then Marxists will accept the liberal argument that competitive capitalism is wonderful. Since the Fundamentalists believe that monopoly has not changed many of the rules, and that competition does win in the long run, this would mean that the whole liberal argument was basically correct. Of course, it was pointed out above the Monopoly Capital theorists do *not* believe that competitive capitalism is wonderful, so they find it hard to understand the worry of the Fundamentalists.

This is a case of lack of communication between Marxists, but it is also a case of very strongly differing viewpoints—for example, the importance of always beginning with Marx's categories versus the importance of always beginning with today's reality. Since the whole approach is so different, no amount of careful definition or empirical measurement will resolve the differences.

#### *Points of Agreement on Monopoly Power*

The Fundamentalists, such as Semmler, stress points of disagreement, but it is worth noting the very important points of agreement. First, the Fundamentalists agree with the Monopoly Capital school that there is a very high level of power exercised by the giant corporation. Semmler writes that "large multiplant and multiproduct corporations [have] . . . economic and social power, derived from the control over many production processes, masses of workers, means of production and over large financial resources . . ." <sup>19</sup> He would not call this power "monopoly power." There is certainly disagreement about the exact definition (and impact) of "monopoly power." Monopoly power may be theoretically defined as the power of large and highly concentrated corporations to affect prices, wages, profit rates, politics, and many other things. To reduce this to an operational definition that can be tested requires many choices of methodology and data on which the participants in the debate do not agree. <sup>20</sup>

Second, the Fundamentalists agree with the Monopoly Capital theorists that the power of the giant corporations has been increasing. Semmler says: "It seems to be true that the economic and social power of large units of capital (or large multiplant and multiproduct corporations) has increased." <sup>21</sup> Apparently, the Fundamentalists think that this merely a large quantitative increase, but not a whole "new stage of capitalism." Certainly, Lenin did believe that monopoly capital is a whole new stage of capitalism. The issue—which is testable in theory, but practically impossible to test with available data—is whether some presently significant functional relations of modern capitalism did not exist (or were insignificant) in the capitalism of Marx's day.

Third, the Fundamentalists agree with the Monopoly Capital theorists that there is a persistent hierarchy of different profit rates. Semmler finds such differential profit rates in the empirical data and concludes: "Those differentials of profit rates can be explained easily by the Marxian theory of competition." <sup>22</sup> (As usual, "the Marxan theory" means Semmler's own interpretation of Marx.) The disagreement comes in explaining *why* that difference among profit rates persists. The Fundamentalists attribute it mainly to factors other than monopoly power, as shown in detail below.

The Fundamentalist, Semmler, also agrees that both prices and profit rates are relatively fixed in the sector of large, oligopolistic corporations, but fluctuate violently in the more competitive sector of small and medium business. He says of smaller firms that "their profit rates are more unstable and they vary strongly in the course of the business cycle." <sup>23</sup> Some writers, including myself, would emphasize this as an important cause of the instability of capitalism. The crisis usually begins in the small business sector, the price rigidities of the oligopoly firms cause greater unemployment and prevent resolution of the crisis, and several other aspects of monopoly power intensify a depression. <sup>24</sup>

#### *Disagreements on Monopoly Power*

The main disagreement is over the causes of the different levels of profit rates. The Fundamentalist interpretation of "Marx's own theory" says that profit rates do not equalize for three reasons. First, disequilibriums of supply and demand take a long while to adjust in some areas. Second, some firms are more efficient and have higher productivity. Third, profit rates would remain unequal because some industries have much higher barriers to capital entry and exit than others. Semmler attacks other Marxists for ignoring Marx's (that is, Semmler's) three conditions for inequality, and believing that *only* monopoly power causes unequal profit rates, so unequal profit rates prove monopoly power. This thesis is a strawman; *none* of the Monopoly Capital theorists have argued such a silly thesis. They have argued that monopoly power is *one* cause of unequal profit rates, not the only cause. All Marxists, and most other economists, would agree on all three of Semmler's other reasons for unequal profit rates. Differential profit rates correlated with monopoly power are *one* symptom of monopoly power, but not the only symptom (and are not a *proof* of monopoly).

Differential profit rates existed to some extent before the stage of monopoly capital. The stage of monopoly capital is marked by the existence of nation-wide oligopolies. Differential profit rates may become more marked, and are correlated with various aspects of monopoly power—but monopoly power is only one thing with which differential profit rates are correlated (in



short, this is not a single but a multiple correlation according to economists who have worked on the data). The Fundamentalists, such as Semmler, appear to agree that differential profit rates are correlated to some aspects of monopoly power, but stress that monopoly power is less important than other factors. There really doesn't seem to be any disagreement that differential profit rates are caused by several factors, of which monopoly power is one—there is vast disagreement over the relative importance of different factors.

When "monopoly power" is broken down to its component parts, the argument is more complex. Semmler says that three aspects are usually specified for monopoly power, at least in empirical attempts to measure it. They are: (1) the concentration ratio, (2) the degree of entry and exit barriers (such as large fixed investment), and (3) the degree of collusion between firms. There are some very good studies, for example, by Kathleen Pulling<sup>25</sup> and Joseph Bowring<sup>26</sup> showing that there is a significant relation between profit rates and industry concentration ratios (sales of 4 or 8 largest firms to all sales). Other studies, cited by Semmler, show a significant relation between profit rates and barriers to entry or exit. "Collusion" cannot be quantified. Even for profit rates, concentration ratios, and barriers, however, there is general agreement by Semmler, myself<sup>27</sup>, Pulling<sup>28</sup>, and others that there are enormous problems of definition, quality of data, and measurement; so the findings are far from precise or accurate.

Particularly in recent years, concentration ratios are a poor indicator of monopoly power. Since they relate to a single industry, they do not reflect vertical concentration (such as merger with suppliers) and they do not reflect conglomerate concentration (mergers across different unrelated industries). Since most merger activity is now of the conglomerate type, industry concentration ratios are a worse and worse measure of concentration, and a totally inadequate measure of monopoly power.

The Fundamentalists' main criticism is that Monopoly Capital theorists see industrial concentration as the sole cause of unequal profit rates. On the contrary, for most Monopoly Capital theorists, industrial concentration ratios are only *one* (poor) indicator of concentration. Concentration of all kinds is only *one* aspect of monopoly power. Monopoly power is only *one* cause of unequal profit rates. The remaining disagreements are (1) how important monopoly power is in affecting profit rates; (2) its importance in affecting other variables, such as exploitation; and (3) whether these effects are enough to change any of the functional relations of capitalism.

Semmler cites a number of conservative neoclassical economists (especially Demsetz) to prove two points they see as interconnected: (1) competition will tend to work against concentration and will tend to equalize profit rates in the long-run; and (2) the differences in profit rates that persist are all (or mostly) due to differences in productivity and efficiency. On the first point, no Marxist among those criticized by Semmler would ever argue that there are no

countervailing tendencies against concentration and its effects. As Lenin and Semmler (and the rest of us) note, the degree of monopoly power continues to grow, but competition continues as well, and competition may even increase in some industries (such as the German and Japanese competition in automobiles). But, contrary to neoclassical expectations, the tendency toward increasing monopoly power remains the stronger trend. (This is an empirical issue in which there is a vast controversial literature with different results depending on different definitions of "monopoly power.")

It is perfectly true that productivity and efficiency differences do account for some of the profit rate differentials (for example, Toyota is pretty efficient, while Chrysler is inefficient and stupid). But, contrary to some neoclassicals, monopoly power remains a determinant as well. Not only Semmler, but even Demsetz apparently agrees to some degree. According to Semmler, "In his numerous studies Demsetz showed a significant relation of profit rates and concentration ratios only for large firms, that is, firms with assets greater than \$50,000,000."<sup>29</sup> But these days firms below \$50 million are pretty small and no one expects monopoly power among them. My own work agrees with Demsetz in that high monopoly profits go mostly to the largest firms in the most concentrated industries.<sup>30</sup>

Semmler says: "But there is no study which unequivocally reveals a dependence of profit rates on firm size."<sup>31</sup> That is Semmler's only statement that is completely incorrect. My own book, cited by Semmler (!), does find a significant relation between profit rates and size—and it cites several more such studies.<sup>32</sup> It may be, however, that Semmler just overstated his point because, later on, he says that no empirical study finds that size is the *only* determinant of profit rates—and that is certainly true. For one thing, size is usually closely related to monopoly power, but it is very definitely not the same thing. There are some large firms with very little monopoly power, and some highly concentrated industries with no very large firms. Nevertheless, large size is related to high profit rates because (1) most do have more monopoly power than smaller firms, and (2) most are more productive and efficient than smaller firms (again, with many exceptions).

### *Underconsumption Versus Realization*

Anwar Shaikh has argued the Fundamentalist view that lack of demand or "underconsumption" is not a correct Marxist view of crises; the only correct Marxist theory is the rising organic composition of capital, which results in a falling rate of profit.<sup>33</sup> From the Fundamentalist view, Weeks defines underconsumption as the hypothesis "that a 'pure' capitalist system is endemically afflicted by the inability to sell all that is produced."<sup>34</sup> In other words, he says, underconsumption theory says that wages are never sufficient

to buy all of production (because workers are exploited). Furthermore, underconsumption—according to him—assumes that the gap cannot be filled sufficiently by capitalist consumption and capitalist investment in new means of production. Therefore, demand is always less than production, and there is a permanent crisis of overproduction relative to sales.

If this is the “underconsumption” theory, then Marx is not an underconsumptionist, nor is Sherman (who is accused of being underconsumptionist by the Fundamentalists). As pointed out in numerous books and articles of mine, Marx (and Sherman) criticized such theories on several grounds. First, there is no permanent crisis. Marx’s reproduction schema show that it is *possible*, though not necessary, that demand may equal supply in a growing capitalist economy. In fact, there are times when demand is greater than supply, and even a few rare occasions when they are equal.

Second, underconsumption theories (as defined by the Fundamentalists) do not explain the determinants of investments, that is, the demand for new constant capital. Therefore, they do not explain why investment could not fill the gap. Marx (followed by Sherman) asserts that in every expansion, workers’ real wages rise, so workers’ demand for consumer goods increases.

On the other hand, Marx’s approach (and Sherman’s) does agree with the underconsumptionists on certain other points. To make a profit, says Marx, capitalists must first *exploit* workers in the production process to create a product embodying surplus value; then the capitalists must *realize* the product by selling it in the market place. To distinguish this Marxist approach from “underconsumptionism” (as defined by the Fundamentalists), it might be called a *realization* theory. The point of agreement is that there must be an effective demand (desire plus money) or else the capitalist cannot realize the value as revenue and cannot realize the surplus value as profit.

Both Marx (and Sherman) and the underconsumptionists despise J.B. Say and Say’s Law. Say’s Law claims that every supply calls forth an equal demand, so there can be no realization problem. Say admits that there may be overproduction and lack of realization of a single product, but there may not be aggregate overproduction or aggregate lack of realization. The Fundamentalists, such as John Weeks, also agree there may be overproduction and lack of realization of a single product, but they do *not* attack Say’s Law, and they are very ambiguous as to whether aggregate lack of demand or aggregate lack of realization is possible. Weeks contends that “the underconsumption hypothesis is inconsistent with the labor theory of value . . . The analysis based on the labor theory of value presumes full realization, and then, through an analysis of how values change, reveals the conditions under which full realization becomes impossible.”<sup>35</sup> Does this mean that full realization of value is *always* presumed or that there are times when it is impossible, that is, not presumed? If full realization of value is not always possible, then Say’s Law is wrong, and lack of demand may cause a depression. If Weeks means that

Marx first assumes Say’s Law (no depressions) as a simplification in looking at value theory, he is correct. When Marx examined crises, however, he tossed out that unrealistic assumption.

Fundamentalists, such as Shaikh<sup>36</sup>, worry that acknowledgement of demand problems must lead to a Keynesian type of reformist solution to business cycle downturns. Robert Cherry even makes the assertion that “Marx believed that deficient demand would not create fundamental problems for capitalist societies.”<sup>37</sup> Yet Marx himself wrote that “the ultimate cause of all real crises always remains the poverty and restricted consumption of the masses.”<sup>38</sup>

Marx stressed the possibility of aggregate overproduction or lack of realization under capitalism because of three institutional features. First, capitalism has market exchange, not use by an isolated unit. Second, capitalism uses money for more than just a bridge between commodities; money may be hoarded or—more precisely—money circulation may slow. Third, capitalists do not produce for use, but only if they expect private profit.<sup>39</sup> So Marx’s crisis theory clearly includes the element of demand or realization. Unlike the “underconsumptionists” as defined by the Fundamentalists), however, any Marxist realization theory must explain (1) both consumer demand and investment and (2) both downturns and upturns.

Marx’s realization theory begins with the obvious point that capitalists can make a profit only if they exploit workers *and* sell the goods. But selling goods requires consumer demand and that “is limited not only by the consumption requirements of society in general, but by the consumption requirements of a society in which the great majority are poor and must always remain poor.”<sup>40</sup>

Furthermore, Marx argued that in every capitalist expansion, productivity rises faster than real wages, so there is an increasing rate of exploitation. The higher rate of exploitation means a relative shift of income to wealthy capitalists from workers. Since capitalists have a lower ratio of consumption to saving than workers, this lowers the average ratio of consumption to saving in the society. When consumer demand starts to fall short of output, the capitalists cannot realize all of the profits. Because there are realization problems, the capitalist reduces the amount of new investments—since there is no reason to build new factories when the old ones cannot sell their output and fire workers. The depression begins.

In a depression, wages fall but not as fast as profits. Since workers get a higher percentage of income, consumer demand does not fall as rapidly as output. Eventually, then, realization is no longer a problem, so capitalist investment revives. The reconvery begins. This is a consistent demand theory of the cycle. Yet Marx also examined the cost side of production in his analysis of exploitation. In a complete theory, production costs must be considered fully, but here it is enough to show that a consistent Marxist realization cycle theory can be written.

### *Compatibility of Labor Theory and Aggregate Demand Theories*

The Fundamentalists assert that continued lack of full realization of commodity values in the market in the aggregate conflicts with the labor theory of value in some sense. John Weeks finds no problem for the labor theory of value with incomplete realization of (or lack of demand for) particular commodities. Assuming pure and perfect competition, he says that those firms with average efficiency determine the price, sell all their products, and make the average rate of profit. If there is insufficient demand for a particular product, however, the weakest firms—those below average efficiency—will go bankrupt. Eventually, then, average efficiency rises, and there is full realization of value and profit. Both Adam Smith and J.B. Say could agree with this description.

In the case of lack of realization (or lack of demand) *in the aggregate*, however, Weeks claims that “the relationship between the expenditure of labor time and labor time realized as money becomes completely indeterminant.” If expenditure of labor time is indeterminant, then the labor theory of value does not apply. So if there is a lack of aggregate demand “production and the interaction of capitals sets the upper limit of realizable abstract labor time, but nothing more. If under-realization is endemic, and the upper limit is rarely reached, then it (the upper limit set by the labor time expended) becomes . . . merely an ideal.”<sup>41</sup> This Fundamentalist view does not deny the reality of massive under-realization or lack of demand (because that would be a very un-Marxist acceptance of Say’s Law). Weeks merely asserts that, if there is continued under-realization, then the upper limit of value set by labor time expended is not reached. In other words, if there is aggregate lack of demand, then prices do not reach the level predicted by the labor theory of value. That is a correct statement, but it does not show “incompatibility,” unless incompatibility means any modification.

The relation of labor time expended to realized value is modified (1) if some labor time is not socially necessary, (2) if skilled labor is expended (because it is then a multiple product of unskilled labor time), (3) if the organic composition of the product is above or below average, (4) if there is incomplete realization . . . or any number of other qualifications (all clearly recognized by Marx himself). Even Weeks admits that realization “is not always quantitatively complete. This does not invalidate the labor theory of value. . .”<sup>42</sup> Apparently, he is trying to say that under-realization is a perfectly compatible modification if it happens once in a while; but, if it happens all the time, it makes the labor theory of value inapplicable (though not wrong, so perhaps not “incompatible”).

Marx himself frequently emphasized that if demand is less than supply (that is, if under-realization exists), market price is below value. If demand is greater than supply, market price is above value. Marx was very careful to say that

(leaving aside all other modifications and constraints) price equals value in terms of labor time only when supply equals demand. So Marx would have no trouble with this qualification to the theory; indeed, he stressed it. As noted above, Marx said that consumption demand under capitalism is limited by the purchasing power determined by the capitalist relations of production. Marx frequently showed that under-realization (including the poverty of the masses of workers) pushed prices below values in a depression. Marx would certainly say that prices were below values in the Great Depression of the 1930s or in the Reagan Depression of 1981-1982. As Weeks admits, this does *not* invalidate the labor theory of value.

This author does not agree with those underconsumptionists who believe that there is *always* under-realization. But even if there were, it means a determinant reduction of price below value. It is determined by capitalist relations, and the theory could calculate the effect (just as it calculates the effect of socially unnecessary labor or other effects). It is *not* indeterminant, as Weeks states. Certainly, it may be difficult to calculate the effect of under-realization exactly. But when has difficulty in quantitative calculation ever stopped a Marxist from admitting the complexities of reality? Calculating price from the labor value, when there is a lack of demand, makes the theory less neat and elegant, but more realistic. Only a dogmatic Fundamentalist would refuse to make a theory more complex in the face of complex reality—I am sure this was not Weeks’ intention.

This author believes that in every capitalist expansion, demand is above supply, so prices tend to rise and may go above long-run labor values—this is most obvious in wartime inflations. In every depression, demand is below supply (under-realization), so prices tend to fall and usually go below long-run labor values. Thus the labor theory of value must be modified for this effect in short-run dynamic analysis, but it is not invalidated.

### *Tentative Conclusions*

The major differences between the Monopoly Capitalist theorists (who are really a wide array of independent thinkers, differing among themselves on many points) and the Fundamentalists (who also differ on some points) are as follows:

1. The Fundamentalists believe that one must follow the authority of Marx on all points. The Monopoly Capital theorists believe that Marx is an inspiration and is right on many points, but that one must think for oneself, and that there are many new phenomena Marx never considered (or didn’t consider in depth).
2. The Fundamentalists believe that the labor theory of value is not only the most important thing in Marx, but answers all question on all topics.

Other Marxists would mostly agree on the central importance of the labor theory of value, particularly with respect to exploitation. But they would argue that there is much more to be said about cycles and monopoly than what follows directly from value theory. Moreover, in each phase of the cycle, value is above or below price; while monopoly also makes value differ from price.

3. For the Fundamentalists, only value and exploitation could be important to cycle theory because they are the only things ever important, so effective demand can have no importance. Other Marxists have varying views of the importance of demand, with most of them agreeing that *both* demand (or realization) and cost of production (or rate of exploitation) are important—and that demand is partly determined by the rate of exploitation.
4. For the Fundamentalists, Marx wrote mainly about a competitive system, so monopoly power is not of much theoretical importance nor does much monopoly power exist in fact. For Monopoly Capital theorists, the fact is that there is a great deal of monopoly power. The existence and increasing importance of monopoly power has greatly changed the functioning of capitalism. It has not changed the basic features of exploitation and crises; but it has changed the operation of prices, profit rates, and many other features.

### Notes

1. John Weeks, *Capital and Exploitation*, Princeton: Princeton University Press, 1981, p. 4.
2. *Ibid.*, p. 7.
3. *Ibid.*, p. 9.
4. *Ibid.*, p. 9.
5. *Ibid.*, p. 8.
6. *Ibid.*, p. 22.
7. *Ibid.*, p. 23.
8. *Ibid.*, p. 79.
9. See *Ibid.*, pp. 121-122.
10. *Ibid.*, p. 28.
11. *Ibid.*, pp. 165-166.
12. *Ibid.*, p. 150.
13. *Ibid.*, pp. 152-153.
14. Willi Semmler, "Competition, Monopoly, and Differentials of Profit Rates: Theoretical Considerations and Empirical Evidence," *Review of Radical Political Economics*, Vol. 13, Winter 1982, pp. 39-52.
15. Harry Magdoff, *Imperialism From the Colonial Age to the Present*, New York: Monthly Review Press, 1978, p. 177.

16. Howard Sherman, *Profits in the United States*, Ithaca: Cornell University Press, 1968. In writing this book I was greatly helped and encouraged by discussions with Paul Baran.
17. Willi Semmler, *op. cit.*, p. 43.
18. *Ibid.*, p. 43.
19. Semmler, *Ibid.*, p. 49.
20. This issue is treated at great length in my book, Sherman, *op. cit.*, Chapter 1.
21. Semmler, *op. cit.*, p. 49.
22. *Ibid.*, p. 47.
23. *Ibid.*, p. 46.
24. Sherman, *op. cit.*, Chapters 6 and 7.
25. Kathleen Pulling, "Cyclical Behavior of Profit Margins," *Journal of Economic Issues*, Vol. 12, June 1978, pp. 287-306.
26. Joseph E. Bowring, *The Dual Economy: Core and Periphery in the Accumulation Process in the United States*, Amherst: unpublished Ph. D. thesis, Department of Economics, University of Massachusetts, 1982.
27. See Sherman, *op. cit.*, Chapters 1 and 2.
28. See Kathleen Pulling, *Market Structure and the Cyclical Behavior of Prices, 1949-1975*, Riverside: unpublished Ph. D. thesis, Department of Economics, University of California, Riverside, 1977.
29. Semmler, *op. cit.*, p. 45.
30. Sherman, *op. cit.*, Chapter 3. Joseph Bowring, *op. cit.*, Chapter 7 reaches the same conclusion.
31. Semmler, *op. cit.*, p. 46.
32. Sherman, *op. cit.*, Chapters 2 and 3.
33. See Anwar Shaikh, "An Introduction to the History of Crisis Theories," in Union for Radical Political Economics, *U.S. Capitalism in Crisis*, New York: Monthly Review Press, 1978, pp. 219-240.
34. John Weeks, "A Note on the Underconsumptionist Theory and the Labor Theory of Value," *Science and Society*, Vol. 46, Spring 1982, p. 61.
35. *Ibid.*, p. 74.
36. See Shaikh, *loc. cit.*
37. Robert Cherry, *Macroeconomics*, Reading: Addison-Wesley Pub., 1980, p. 331.
38. Karl Marx, *Capital*, Charles Kerr edition, Vol. 3, p. 568.
39. For further discussion of these three points, see Howard J. Sherman, "Marx and the Business Cycle," *Science and Society*, Fall 1967.
40. Marx, *Capital*, Charles Kerr edition, Vol. 2, p. 363.
41. Weeks, "A Note on the Underconsumptionist Theory and the Labor Theory of Value," *op. cit.*, p. 71.
42. *Ibid.*, p. 73.



## Marx and Underdevelopment

Immanuel Wallerstein

One of the signal contributions of Paul Sweezy and Harry Magdoff has been their ceaseless emphasis on a global perspective, their efforts in so many different ways to rescue Marxism from so many of its practitioners, including those who wished to place it at the service of self-enclosed nationalisms. This is a political question to be sure, but it is also an intellectual question, one both of epistemology and historiography. It seems appropriate, therefore, to honor them by taking a look once again at the heritage of Marx and the traditions of the Marxists as they bear on a central focus of contemporary global analysis, the phenomenon of "underdevelopment."

Karl Marx in his life work was caught up in the basic epistemological tension of any and all attempts to analyze large-scale, long-term processes of social change: simultaneously to describe the characteristics and the principles of a "system" in its unique process of development.

This tension between a theory that is necessarily abstract and a history that is necessarily concrete cannot by definition be eliminated. Just like most other thinkers facing and aware of this tension in their intellectual activity, Marx resorted to the tactic of alternating emphases in his writings. It is easy therefore to distort his interest, by pointing to only one end of this pendulum and presenting it as the "true Marx" in ways he would have rejected, and frequently did.

Because, however, this tension is ineradicable, it follows by definition that no thinker, however insightful, can ever state things in such a way that they are correct 100 years later. The very evolution of the 100 years creates additional empirical reality which means that the previous theoretical abstractions *must* be modified. And so it will go forever. Marx would have written the *Communist Manifesto* differently in 1948 than in 1848, and *Capital* differently in 1959 than in 1859. We must do the same.

"Marx and underdevelopment" is a curious theme in many ways, since Marx did not really know the concept of underdevelopment. It is a concept alien to his work as he usually expounded it. It is a concept which in many ways challenges Marx's ideas every bit as much as it challenges traditional bourgeois liberalism. For we must never forget that liberalism and Marxism are joint heirs to Enlightenment thought and its deep faith in inevitable progress.

Yet nonetheless underdevelopment is a concept that opens the door to analyses which alone will be able to confirm the essential thrust of Marx's

insight into world-historical development, and most specifically into the historical processes of the capitalist mode of production. From the combination of abstract and concrete analyses that Marx and Engels undertook, the socialist movements, the "Marxists," drew in fact, it seems to me, three primary messages (at least until recently).

Message number one was the centrality of the proletariat to the economic and political processes of the capitalist world. The industrial proletariat, and only the industrial proletariat, produced the surplus-value, whose seizure (or accumulation) was the entire object of the capitalist enterprise (M-C-M), the accumulated capital then being used to renew the process ("expanded reproduction of capital") in order to accumulate still more capital.

Politically, it was the industrial proletariat, and it alone, which had "nothing to lose but its chains," and therefore alone had the self-interest and lucidity to perceive the contradictions of capitalism and to seek to transform the world into a communist one. From this centrality of the proletariat a political lesson was drawn. The struggle for socialism/communism had to be led by an organized political party rooted in the proletariat and reflecting its interests.

Message number two was the priority of the most "advanced" countries ("De te fabula narratur"). Capitalism was a progressive development in the double sense of the word "progress." It represented an "advance" over prior forms of social organization. It was a process which developed out of them and only in due time (no "bold leaps").

This had a clear implication both for socio-historical analysis and for political action. For both it meant that Europocentrism was not merely legitimate; it was in some sense mandatory. For it was in western Europe that capitalism first developed; it was in western Europe that the proletariat first emerged; it was consequently in western Europe that successful socialist revolutions would first occur.

Message number three was the economic importance of the distinction, which was also an historical sequence, of merchant capital and industrial capital. These were two distinct forms of capitalism, one located in the sphere of circulation (and hence not involving productive labor) and one located in the sphere of production. It was only when industrial capital came to be (sequentially) dominant in a given zone that we could say "true" capitalism existed, and surplus-value was being extracted.

The political implication of this distinction was that the triumph of industrial over merchant capital in a given state was somehow progressive, and that it might be the duty of working class movements to support the struggle to achieve this triumph, even perhaps to substitute itself for any industrial bourgeoisie which failed to play its "historic" role.

And yet, even though these messages are clear and have determined a good deal of subsequent use of Marx's ideas, he himself offered us significant cautions about these notions. On message one, the proletariat as meaning

primarily (if not exclusively) wage-earning urban industrial workers, let us look first at his famous discussions of the peasantry in the *Class Struggles in France* and the *Eighteenth Brumaire*.

Thus it came about that the French peasant cedes to the capitalist, in the form of *interest* on the *mortgages* encumbering the soil and in the form of interest on the *advances made by the usurer without mortgages*, not only rent, not only the industrial profit, in a word, not only the *whole net profit*, but even *a part of the wages*, and therefore he has sunk to the level of the *Irish tenant farmer*—all under the pretence of being a *private proprietor* . . .

The condition of the French peasants, when the republic had added new burdens to their old ones, is comprehensible. It can be seen that their exploitation differs only in *form* from the exploitation of the industrial proletariat. The exploiter is the same: *capital*.<sup>1</sup>

The small holding of the peasant is now only the pretext that allows the capitalist to draw profits, interest and rent from the soil, while leaving it to the tiller of the soil himself to see how he can extract wages.<sup>2</sup>

There are two clear warnings in these passages. The first is the use of the term "wages" to describe the income retained by the peasant proprietor. The second is the statement that the latter's relationship to the capitalist "differs only in *form*" from that of the industrial proletariat. (Note in addition the use of the modifying adjective "industrial" for "proletarian," as though there were several varieties of proletarians.) We all know that for Marx to call something a difference in form means to indicate that this difference is secondary and minor and does not detract from the *essential* similarity of the two phenomena. As if further to underline this point, Marx speaks of the "wages" of the peasant proprietor, although no money passes in this case from any "employer" to him as an "employee."

As for the idea that surplus-value can only be extracted from a wage-earning employee, Marx specifically states the opposite, spelling out how surplus-value can be extracted not only when there is no real subsumption of labor but also when there is not even the formal subsumption of labor. See this passage from the *Resultate*:

In India, for example, the capital of the *usurer* advances raw materials or tools or even both to the immediate producer in the form of money. The exorbitant interest which it attracts, the interest which, irrespective of its magnitude, it extorts from the primary producer, is just another name for surplus-value. It

transforms its money into capital by extorting unpaid labour, surplus labour, from the immediate producer. But it does not intervene in the process of production itself, which proceeds in its traditional fashion, as it always had done. In part it thrives on the *withering* away of this mode of production, in part it is a means to make it *wither* away, to force it to *eke out* a vegetable existence most unfavourable conditions. But here we have *not yet* reached the stage of the formal subsumption of labour under capital.<sup>3</sup>

Finally, there are his oft-noted discussions of slavery, where he clearly distinguishes between slavery within "the patriarchal system mainly for home use" and slavery within the "plantation system for the world-market." He talks once again explicitly of the creation therein of surplus-value, and he asserts:

Where the capitalist outlook prevails, as on American plantations, this entire surplus-value is regarded as profit; where neither the capitalist mode of production itself exists, nor the corresponding outlook has been transferred from capitalist countries, it appears as rent.<sup>4</sup>

Nor is slavery somehow marginal to the functioning of capitalism. Indeed, he precisely criticizes Proudhon for implying this:

Direct slavery is as much the pivot upon which our present-day industry turns as are machinery, credit, etc. Without slavery there would be no cotton, without cotton there would be no modern industry. It is slavery which has given value to the colonies, it is the colonies which have created world trade, and world trade is the necessary condition for large-scale machine industry.<sup>5</sup>

Slavery and other non-wage relations of production are not marginal to capitalism because of the distinctive "process of circulation of industrial capital":

No matter whether commodities are the output of production based on slavery, or peasants (Chinese, Indian ryots), of communes (Dutch East Indies), of state enterprise, (such as existed in former epochs of Russian history on the basis of serfdom) or of half-savage hunting tribes, etc.—as commodities and money they come face to face with the money and commodities in which the industrial capital presents itself and enter as much into its circuit as into that of the surplus-value borne in the commodity-capital, provided the

surplus-value is spent as revenue; hence they enter into both branches of circulation of commodity-capital. The character of the process of production from which they originate is immaterial. They function as commodities in the market, and as commodities they enter into the circuit of industrial capital as well as into the circulation of the surplus-value incorporated in it. It is therefore the universal character of the origin of the commodities, the existence of the market as world-market, which distinguishes the process of circulation of industrial capital.<sup>6</sup>

Note once again that all these forms of production are considered to have created "surplus-value" once they enter into the "circuit" of capital. "The character of the process of production from which they originate is immaterial."

When we turn to message two, the question of the priority of what today we call the core areas of the world-economy, we find a similar prudence in the famous Preface to the First German Edition of *Capital*. Let me cite it at some length:

The physicist either observes physical phenomena where they occur in their most typical form and most free from disturbing influence, or, wherever possible, he makes experiments under conditions that assure the occurrence of the phenomenon in its normality. In this work I have to examine the capitalist mode of production, and the conditions of production and exchange corresponding to that mode. Up to the present time, their classic ground is England. That is the reason why England is used as the chief illustration in the development of my theoretical ideas. If, however, the German reader shrugs his shoulders at the condition of the English industrial and agricultural labourers, or in optimist fashion comforts himself with the thought that in Germany things are not nearly so bad; I must plainly tell him, "*De te fabula narratur!*" Intrinsically, it is not a question of the higher/lower degree of development of the social antagonisms that result from the natural laws of capitalist production. It is a question of these laws themselves, of the tendencies working with iron necessity towards inevitable results. The country that is more developed industrially only shows, to the less developed, the image of its own future. But apart from this. Where capitalist production is fully naturalized among the Germans (for instance, in the factories proper) the condition of things is much worse than in England, because the counterpoise of the Factory Acts is wanting. In all other spheres, we, like all the rest of Continental Western Europe, suffer not only from the development of capitalist production, but also

from the incompleteness of that development. Alongside of modern evils, a whole series of inherited evils oppress us, arising from the passive survival of antiquated modes of production, with their inevitable train of social and political anachronisms. We suffer not only from the living, but from the dead. *Le mort saisit le vif!*<sup>7</sup>

Notice how "*De te fabula narratur*" is immediately qualified. It is not that one country has a "higher" degree of development and the other a "lower" one. We are talking of laws that cover both. Nor is Germany in fact the same as England; it is *worse*. It suffers not merely from "the development of capitalist production" but from the "incompleteness of that development." And this present differential will determine the future. "*Le mort saisit le vif!*"

We get in fact a further kind of qualification in the comparisons between England and France in the *Class Struggles in France*. Marx is explaining why the French industrial bourgeoisie in 1848 did *not* rule the French state, as the English bourgeoisie ruled the English state:

The industrial bourgeoisie can rule only where modern industry shapes all property relations to suit itself, and industry can win this power only where it has conquered the world market, for national bounds are inadequate for its development. But French industry, to a great extent, maintains its command even of the national market only through a more or less modified system of prohibitive tariffs.<sup>8</sup>

The situation, it seems, differs fundamentally between a country that has "conquered the world market" and the others. But can, logically or empirically, more than one country at a time "conquer the world market?" It seems doubtful, and Marx himself seems to opt for the single-country hypothesis:

In France, the petty bourgeois does what normally the industrial bourgeois would have to do; the worker does what normally would be the task of the petty bourgeois; the task of the worker, who accomplishes that? No one. In France it is not accomplished; in France it is proclaimed. It is not accomplished anywhere within the national walls; the class war within French society turns into a world war, in which the nations confront one another. Accomplishment begins only when, through the world war, the proletariat is pushed to the fore in the nation which dominates the world market, to the forefront in England. The revolution, which finds here not its end, but its organizational beginning, is no short-lived revolution. The present generation is like the Jews whom Moses led through the wilderness. It has not only a new world to conquer, it must go

under in order to make room for the men who are able to cope with a new world.<sup>9</sup>

In this wilderness through which we are wandering, there are two possible paths we can take. We can decide that it is only in the most "advanced" country that the transition to socialism can occur (or can first occur). We know this is one inference Marx at times drew. Or one can go another route. We can decide that the situation is so special in the country which dominates the world market that it tells us nothing of real politics elsewhere. De facto, most Marxist parties have gone this latter route, without in many (even most) cases being ready to admit this theoretically and therefore to deal with the necessary consequences of such an attack on the theoretical priority of the center.

Marx himself seems aware of the dilemma and tries to save the situation by the thesis of a revolutionary zigzag:

Just as the period of crisis occurs later on the Continent than in England, so does that of prosperity. The original process always takes place in England; it is the demiurge of the bourgeois cosmos. On the continent, the different phases of the cycle through which bourgeois society is ever speeding anew occur in secondary and tertiary form. First, the Continent exported incomparably more to England than to any other country. This export to England, however, in turn depends on the position of England, particularly with regard to the overseas market. Then England exports to the overseas lands incomparably more than the entire Continent, so that the quantity of Continental exports to these lands is always dependent on England's overseas exports at the time. While, therefore, the crises first produce revolutions on the Continent, the foundation for these is, nevertheless, always laid in England. Violent outbreaks must naturally occur rather in the extremities of the bourgeois body than in its heart, since the possibility of adjustment is greater here than there. On the other hand, the degree to which Continental revolutions react on England is at the same time the barometer which indicates how far these revolutions call in question the bourgeois conditions of life, or how far they only hit their political formations.<sup>10</sup>

In 1870, Marx suggested another, even more "Third-Worldist," version of this zigzag, where revolution in Ireland is considered to be the prerequisite for revolution in England.

Ireland is the bulwark of the English landed aristocracy. The exploitation of that country is not only one of the main sources of



this aristocracy's material welfare; it is its *greatest moral strength*. It, in fact, represents the domination of England over Ireland. Ireland is therefore the *great means* by which the English aristocracy maintains its domination in England herself. If, on the other hand, the English army and police were to withdraw from Ireland tomorrow, *you would at once have an agrarian revolution there*. But the overthrow of the English aristocracy in Ireland involves as a necessary consequence *its overthrow in England*. And this would fulfill the preliminary condition for the *proletarian revolution* in England. The destruction of the English landed aristocracy in Ireland is an *infinitely easier* operation than in England herself, because in Ireland the land question has hitherto been the exclusive form of the social question, because it is a question of existence, of life and death, for the immense majority of the Irish people, and because *it is at the same time inseparable from the national question*. This quite apart from the Irish being more passionate and *revolutionary in character* than the English.<sup>11</sup>

One last caution of Marx should be noted. This has to do with message three on the merchant vs. industrial capital distinction so dear to those who believe that, in a capitalist world, the sphere of production has some kind of ontological distinctiveness from and primacy over the sphere of circulation. No doubt Marx utilized extensively this distinction, but when he came to discussing "spheres" of the circuit of capital, he could sound strangely "circulationist." Marx is always clearest when he engages in polemics. In 1846, he attacked Proudhon. In 1875, he attacked Lassalle. Over a period of thirty years, the complaint remained virtually the same:

Mr. Proudhon is so far from the truth that he neglects to do what even profane economists do. In discussing the division of labour, he feels no need to refer to the world *market*. Well! Must not the division of labour in the fourteenth and fifteenth centuries, when there were as yet no colonies, when America was still non-existent for Europe, and when Eastern Asia existed only through the mediation of Constantinople, have been utterly different from the division of labour in the seventeenth century, when colonies were already developed? And that is not all. Is the whole internal organization of nations, are their international relations, anything but the expression of a given division of labour? And must they not change as the division of labour changes?<sup>12</sup>

And against Lassalle's Gotha Program, he thunders:

It is altogether self-evident that, to be able to fight at all, the working class must organize itself at home *as a class* and that its own country is the immediate area of its struggle. Insofar as its class struggle is national, not in substance, but, as the *Communist Manifesto* says, "in form." But the "framework of the present-day national state," for instance, the German Empire, is itself in its turn economically "within the framework" of the world market, politically "within the framework" of the system of states. Every businessman knows that German trade is at the same time foreign trade, and the greatness of Herr Bismarck consists, to be sure, precisely in his pursuing a kind of *international policy*.<sup>13</sup>

Once again we get the distinction of form and substance. The form of class struggle may be national, indeed "must" be national. But the economic substance is the world market, and the political substance the system of states. Both the "internal organization of nations" and their "international relations" necessarily change in function of changes in the "division of labour," which is located in the world market.

I remind you that I have not cited at length from Marx in order to discover the true Marx. There is no true Marx. There are two Marxes, at least two. There have to be, since he was caught in that inescapable epistemological dilemma of which I spoke. Rather, I have cited him at length to demonstrate that, at the minimum, we should remember his qualifications, his prudences, his ambiguities. I do this because I wish now to turn to the culs-de-sac into which much Marxist analysis and praxis has fallen, as a result of having failed to remember the qualifications, prudences, ambiguities.

The culs-de-sac—or if you wish to be generous, the theoretical conundra—are well known. The emphasis on the key role of the urban industrial proletarians meant that Marxists were ceaselessly explaining, or explaining away, the role of (the very existence of) nationalities, peasants, minorities, women, and the whole peripheral zone. How much ink has been spilled—and blood—over Marxism and the national question, Marxism and the peasant question, Marxism and the woman question! Nine-tenths of the world became "questions," "anomalies," "survivals"—objectively progressive for a while perhaps, but destined to disappear, sociologically, analytically, politically.

And as if this weren't curious enough, Marxists have had to face the disturbing fact that in many ways what was supposed to be the locus of world revolution—i.e., the core of the core—turned out to be the most refractory zone of all. No revolutions, no immiserization, and surely no withering away of the state.

The biggest conundrum of all has been the Soviet Union. Born out of a revolution that wasn't supposed to have occurred, Marxists have spent the last 65 years facing up to the particular structures and policies that have prevailed,

all unanticipated by and largely unaccounted for by prior theorizing. On the whole, Marxists have reacted to this phenomenon either by apologetics or by denunciation. A few have tried to find an uncomfortable niche in-between these two polar responses. What Marxists have not done is to see whether or not, within the framework of Marxist theory, one could have expected to have happened exactly what did happen, whether the Soviet Union's policies—from Lenin to Stalin to Kruschchev to Brezhnev to Andropov—are not completely explicable as a consequence of the workings of the capitalist world-economy? Does not Marx's question in his 1846 letter to Annenkov apply here still? "Is the whole internal organization of nations, and their international relations, anything but the expression of a given division of labor?"

I would like to argue that if we take what I consider to be the six major theses of the Marx corpus, they can account for, do account for, the history of the last 150 years (indeed the history of the last 400 years) quite adequately, and also indicate both the hopeful possibilities and the great dangers of the immediate future.

Thesis No. 1. Social reality is a process of ceaseless contradictions, which can only be apprehended dialectically.

Thesis No. 2. Capitalism is a process of ceaseless accumulation of capital, which distinguishes it from precapitalist modes of production.

Thesis No. 3. Capitalism as an historical system involves the transformation of the productive processes such that they create surplus-value which is appropriated by bourgeois in order to accumulate capital.

Thesis No. 4. Capitalism over time polarizes the social organization of life such that more and more persons are grouped as either bourgeois or proletarians, and that the proletariat suffers immiserization.

Thesis No. 5. In a capitalist world, the state is an instrument of capitalist oppression; socialism involves the withering-away of the state.

Thesis No. 6. The transition from capitalism to socialism cannot be evolutionary; it can only be revolutionary. To believe otherwise is Utopian in the negative sense of that term.

Where into all of this does the concept of "underdevelopment" come? The answer is very simple. It is only when we move to the center of our consciousness the fact that the whole set of characteristics we call to mind with the locution "underdevelopment"—that is, non-wage-labor forms of market production, marginalization and squatting, a distended tertiary sector, the emergence of the social role of the housewife, ethnicity, clientelism, corrupt and oppressive state-machineries, etc.—are neither anomalies nor survivals, but creations of the capitalist mode of production which are integral parts of its functioning, that we can arrive at a coherent account of capitalism as an historical system in which the six theses of Marx listed above are seen to be valid.

As long as Marx's ideas are taken to be theses about processes that occur

primarily within state boundaries and that involve primarily urban wage-earning industrial workers working for private industrial bourgeois, then these ideas will be easily demonstrated to be false, misleading, and irrelevant—and to lead us down wrong political paths. Once they are taken to be ideas about a historical world-system, whose development itself involves "underdevelopment," indeed is based on it, they are not only valid, but they are revolutionary as well.

In this case, we have the following kind of broad account of the actual historical development of the capitalist world-economy over time. In the Late Middle Ages, as the result of the so-called crisis of feudalism which threatened the ability of Europe's upper strata to extract significant amounts of surplus from the direct producers by the methods central to the feudal system, emphasis began to be placed on an alternative mode of surplus-extraction, that occurring via market mechanisms. We call this system capitalism.

It required new forms of production processes, new modes of labor control, and new institutional frameworks. It also required new social roles, those we have come to call the roles of bourgeois and proletarian. Within the relatively short period of 200 years (by say 1650), this new "mode of production" was so successful that it had completely reversed the previously declining rates of upper strata extraction and had indeed made possible new levels far beyond the imagination of feudal society. The new system consolidated itself in Europe and went on from there to take over the world, in the process eliminating all alternative modes of social organization and establishing eventually a single division of labor throughout the globe for the first time in human history.

By 1650, we not only had in place a capitalist world-economy located primarily in Europe; we also had a functioning interstate system, composed of so-called sovereign states. The world-economy was structured by an integrated set of production processes which involved a pattern of exchange that ensured not only the transfer of surplus-value from direct producers to upper strata but a concentration of the accumulation in the so-called core areas of this world-economy, essentially by means of unequal exchange mechanisms that gave the advantage to upper strata in core areas at the expense of smaller numbers of upper strata in the peripheral areas. The sovereign states became the primary political units organizing the necessary flow of the factors of production. Placed in a hierarchical order, these states were all constrained (even the strongest among them) by emerging "rules" of the interstate system, these "rules" providing the crucial political superstructure of capitalism as a mode of production.

To make such a system work, more and more productive processes had to be commodified, that is, oriented to production for a world market, which developed long "commodity chains." These commodity chains, when subjected to empirical analysis by tracing backwards the multiple inputs to some major consumables such as finished cloths, revealed two traits from the

beginning. First, the chains crossed many frontiers, primarily moving from periphery to core. Secondly, the inputs to these chains were produced by a very variegated set of relations of production, only a small part of which were what we have wrongfully come to think of as "classically capitalist." These two traits have remained largely true up to today.

The shape of the chains and perhaps most importantly the price structures of the multiple transactions were not shaped in an absolutely free market, but fashioned in a market whose rules for price-setting were framed by the vector of all political authorities (the unequally strong sovereign states, acting directly and via the "rules" of the interstate system). Price-setting practices have been stable in the medium-run but changeable in the long-run, the outcome of the continuing class struggle.

The inherent contradictions of capitalism as a mode of production resulted with relatively predictable frequency in cycles of economic expansion and stagnation of the world-economy as a whole (causing a very complex set of changes in its component parts). One of the many aspects of these cyclical shifts has been an internally-generated but discontinuous need of the capitalist world-economy to expand its zone of operation, both extensively and intensively. Extensive expansion involved the incorporation of new, previously external, areas into the division of labor of the capitalist world-economy. Internal expansion (or deepening of capitalist processes) involved socially-rewarded technological innovations (with the concurrent practices of increased concentration of capital, increase of the ratio of fixed to variable capital, and continuous deskilling of the work force). The two processes of extensive and intensive expansion went to some extent in opposite directions. Indeed, the major impulse for extensive expansion was to counteract the reduction in the overall ratio of surplus-value extraction as a result of the economic *and political* consequences of an increase in intensive expansion.

The central social consequence of this capitalist process, however, has been the *creation* of the proletariat and the bourgeoisie as social categories. In order to have an adequate work force for the production processes producing for the world market, this work force has had to be compelled to work in ways that were different from those in which its predecessors did. This is the famous and crucial insight of Marx about the alienation of the proletariat and the elimination of his ownership and control of the means of production. Yet this crucial insight has been misread, in part by Marx himself, as a simple sequence of taking land away from an independent small peasant which thereby drove him to be an urban wage-worker.

Historically, the picture is so much more complex than that imagery conveys that we can only call it flagrantly misleading. In fact, what has happened is that the process of commodification of labor has been accompanied by a reshaping of "subsistence" forms of labor such that they have remained an integral element of the reproduction of the labor force in the capitalist mode of

production. It is precisely this fact, that the vast majority of the workforce depends only *partially* on wage-labor for their lifetime income needs, that has made the workforce totally integrated into the logic of the world-economy. And it has done so in ways that have been far more efficacious—and profitable—for the upper strata than if the workforce were in fact composed only of full-time wage-earning industrial workers with no sources of income other than that received from the employer as wages.

Instead, workers have been regrouped in complex structures we may call households, collectivities of individuals of both sexes and of different ages, which have been, however, neither necessarily close kin nor necessarily co-residential. These households typically have assembled their income from multiple sources, one of which to this day has remained various forms of "subsistence" activity (consecrated indeed by the devalued work symbolized by the social role of the "housewife"). In addition, household income has been assembled from petty commodity production, rents, transfer payments and gifts, and of course wage-work (this last being statistically less important than we usually assert).

The resulting households have found themselves under two continuing pressures: to commodify even further all aspects of social reproduction; to funnel surplus-value to the upper strata indirectly by permitting significant reductions in the lifetime wage-levels of wage-workers, even of that minority who are paid more than the real minimum wage. Not only are there therefore a wide range of social combinations reflected in these household structures, but it is only a minority—even today, even in the core zones—which come close to the "classical" image of the proletariat. Yet, paradoxically—a paradox to which we shall return—it is true that the degree of proletarianization has in fact been nonetheless increasing over time, both in terms of the percentages of the workforce involved in production for the world market, and in terms of the degree of dependence upon wage-labor as a percentage of household income.

Parallel to this process of proletarianization has been a process of bourgeoisification. Just as more and more of the workforce has been oriented to production for the world market, so more and more upper strata have been oriented to deriving their surpluses from the current operations of the world market. Bourgeois households too have become structures that pool diverse forms of income in complex ways, profits from managerial ownership being only one of them, and (as with wage-labor for the workforce) a minority form. The parallel to the workforce's "subsistence" income has been the upper strata's "feudal rent" (*lato sensu*) income. Just as "subsistence" in a capitalist system provides greater profit to the bourgeoisie than if all labor sales were through the market, so "feudal rent" in a capitalist system provides greater profit to the bourgeoisie than if all labor purchases were through the market.

Not only therefore is there a wide range of bourgeois households but it is only a minority—even today, even in the core zones—which come close to the

“classical” image of the bourgeoisie. Yet, paradoxically, it is true that the degree of bourgeoisification has been increasing, in the same double sense we invoked for proletarianization. The percentage of upper strata involved in market surplus-extraction operations has been growing, and an ever greater percentage of their income has in fact been coming from current market operations.

I have used the word “paradox” twice, once about proletarianization and once about bourgeoisification. What is the paradox? The paradox is that these central processes of capitalist development as described by Marx, and which in turn account for the material and social polarization of the world, have come about not because of but *despite* the will and interests of the bourgeoisie as a class. It is the low level of proletarianization, not the high level, that has created and preserved the profit-making potential of capitalism as a system. It is the low level of bourgeoisification, and not the high level, that has created and preserved the political structures that ensured its survival. Neither proletarianization nor bourgeoisification are of intrinsic interest to capitalists. “Accumulate, accumulate! That is Moses and the prophets!”<sup>14</sup>

Proletarianization and bourgeoisification have come about not because of the demiurge of the capitalists but as mechanisms to resolve repeated short-run crises which have had the contradictory effect of undermining the system in the long run. It is as though capitalist economic policies which pushed at the level of the world-economy as a whole to ever greet material polarization (the increasing real work load of the majority of the world’s population and the real historical reductions in their quality of life) have been countermanded by the ever greater social polarization (the increasing elimination of the “neo-feudal” structures that were created by capitalists to make possible the material polarization). For it is the social polarization far more than the material polarization which has created the main base for the rise of the capitalist world’s antisystemic movements in the last 150 years.

And here we come to the last paradox. The political configuration of the capitalist world-economy—sovereign states ensconced in an interstate system—has forced upon the movements a Hobson’s choice. They have been forced to choose between seeking power within the framework of separate sovereign states, or not to have a plausible possibility of achieving some power. But obtaining power within a sovereign state that is constrained by an interstate system based on a functioning division of labor has not meant, probably could not have meant, the ability to opt out of the capitalist world-economy. It has meant instead the ability to achieve some limited reallocation of world surplus, in short, the power to bring about reforms, without necessarily undermining the system as such.

Quite the contrary. The coming to power in state after state of antisystemic movements has undermined to be sure the system by providing models and support for other antisystemic movements. But it has simultaneously reinforced

the system by providing means of taming the rebelliousness of the world’s workforce. The Soviet Union—both in its “Stalinist” tendencies and in its “revisionism”—is neither a distortion nor logically a surprise. It is the model of what we should have expected as a consequence of the development of capitalism as a world-system, precisely if we had taken Marx’s theses seriously, especially in the light of the concept of “underdevelopment.” It is the model of a weak state trying to become a strong state, thereby changing the economic role of this region in the world-economy. Marxism has served both as an instrument to struggle against the world capitalist system, and as ideological cover and ideological constraint on those who came to hold power. Ergo, the ambiguous balance-sheet.

But history is not yet over. The “socialist states” have emerged as an integral part of the developmental history of capitalism. So have the continuing and expanding ethno-nationalisms of the twentieth century. So have racism and sexism. Capitalism is more of a hydra-headed monster than anyone could imagine in the nineteenth century, not to speak of the sixteenth. Like all monsters, it is lumbering along to its doom, but in the meantime it is destroying many lives and much of our ecological heritage.

This then brings me to Thesis No. 7, the one about which Marx was unequivocally wrong. Thesis No. 7 is that capitalism represented progress over what existed before, and it will ineluctably be followed by the dawning of the classless society. This is socialism utopian, not socialism scientific. Capitalism has represented historically moral regression and for the vast majority of the world’s population material regression, even while it has ensured for the upper strata of the world (now enlarged from 1 per cent to maybe 20 per cent of the world’s population) a material standard of living and style of life that far surpasses the possibilities of even the “Oriental potentates” of yore.

In fact, as the dilemmas of the antisystemic movements show us, the world today is faced not with inevitable progress but with a real historical choice. The bourgeoisie of the world, reluctantly bourgeoisified, is struggling to survive. Just as the aristocracy of feudal Europe survived their great structural crisis by transforming themselves into bourgeois reigning over a new mode of production, so the bourgeoisie of today are already in the process of trying to survive their structural crisis by transforming themselves into “x” reigning over a new mode of production.

This is neither impossible nor inevitable. The alternative possibility is the creation in the next 100 years of a socialist world order, one based on a system of production for use, one that will involve the withering away of the states because of the withering away of the interstate system, one which will result in a reasonably egalitarian distribution of resources, time, space, and social roles. Such a system will not be Utopia, nor beyond history. And it is quite impossible today to predict its institutional forms. But this alternative would indeed be progress.



The question before us, the only one of any moral or political interest, is how in this twilight-zone of capitalism as an historical social system, we can make more likely the relatively egalitarian outcome as opposed to the relatively inegalitarian one. I have no easy answer to that question. I have observed that, in the last 100 years or so, the most progressive upsurges of collective sentiment and action, those that have left the most positive residue, have come in the late stages of political mobilization by the movements—the stages where these movements “get out of hand.” Once these movements achieve “power,” these upsurges become more practical and less effervescent, and eventually die down through inanition, disillusionment, active suppression.

I do not conclude that movements should never take state power, nor that it is hopeless if they do. I do conclude that unless a broader, more complex strategy of the struggle is evolved, we shall not arrive at an egalitarian socialist world order. I have some specific suggestions, none of which is completely thought through, and all of which together may not suffice. But they do seem to me hopeful lines of action.

First, three different kinds of antisystemic movements have emerged in the three political “worlds” existing since the Second World War. There are the national liberation movements in the “pre-revolutionary” states of the periphery. There are the multiple forms of “new” movements in the principal core states, organizing all sorts of groups who have been left out previously. There are the emerging efforts to create movements within and without the parties of the “post-revolutionary” states. Insofar as each segment reflects a different form of antisystemic impulse (that is, opposition to the capitalist world-economy and all of its outgrowths), these movements need to figure out how they can become one family of movements, not three.

Secondly, these movements need to rethink how they relate to existing “workers” movements. Indeed the question is one of fundamental definition. If indeed Marx was right and the world is socially polarizing into bourgeois and proletarians, then at least 80 per cent worldwide are indeed proletarians (though this percentage would be different as calculated within particular state boundaries), and all three of the new kinds of antisystemic movements are primarily composed of proletarians.

Thirdly, state power is only one form of power within the modern world-system. There are many other forms—economic, social, cultural. We must cease thinking of these other forms of power as mere by-ways en route to state power. We must think of them as coordinate parts of a whole, in which the battle is fought. We must defetishize state power without neglecting it.

Fourthly, we must systematically and thoroughly reopen the nineteenth-century consensus of social thought, of which liberalism and classical Marxism are the two principal variants and, in the light of the real evolution of the world we must rewrite our theory and above all our historiography. We must do as Marx counseled: *Hic Rhodus, hic salta!*

Finally, it would be well to rethink our metaphor of transition. Since the late nineteenth century, we have been embroiled in a pseudo-debate about evolutionary versus revolutionary paths to power. *Both* sides were and always have been essentially reformist, because both sides believed that transition is a controllable phenomenon. A transition that is controlled, that is organized, is bound to involve some continuity of exploitation. We must lose our fear of a transition that takes the form of crumbling, of disintegration. Disintegration is messy, it may be somewhat anarchic, but it is not necessarily disastrous. “Revolutions” may in fact be “revolutionary” only to the degree they promote such crumbling. Organizations may be essential to break the crust initially. It is doubtful they can actually build the new society.

If this sounds too adventurous for you, and too vague, I ask you to reflect upon the alternative scenarios—both the one represented by the historical transition of Europe from feudalism to capitalism, and the one that seems indicated by the very ambiguous and uneven story of our antisystemic movements up to now. I am not recommending any form of passivity. I am recommending the use of active intelligence and active organizing energy that is simultaneously reflexive and moral, in the class struggle of the majority against the minority, of those who are exploited against the exploiters, of those who are deprived of the surplus-value they create against those who seize this surplus-value and live off it.

## Notes

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2. Karl Marx, *The Eighteenth Brumaire of Louis Bonaparte*, in *ibid.*, XI, 1979, p. 190.
3. Karl Marx, “Results of the immediate process of production,” originally planned as Part Seven of Volume I of *Capital*, published in English as the Appendix to Karl Marx, *Capital*, translated by Ben Fowkes, New York: Vintage, 1977. 1023.
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5. Karl Marx, Letter to P.V. Annenkov, 28 December 1846, in Karl Marx, Frederick Engels, *Collected Works*, XXXVIII, New York: International, 1982, 101-102.
6. Marx, *Capital*, (1967), *op. cit.*, II, 110.
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8. *Class Struggles*, *op. cit.*, 56.
9. *Ibid.*, 117.
10. *Ibid.*, 134-135.
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12. Marx, Letter to Annenkov, *op. cit.*, 98.
13. Karl Marx, *Critique of the Gotha Program*, in Robert C. Tucker, editor, *The Marx-Engels Reader*, New York: W. W. Norton, 1972, 390.
14. Marx, *Capital* (1967), *op. cit.*, I, 595.

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## Harry Magdoff and Paul Sweezy: Biographical Notes

Michael Hillard

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### *Harry Magdoff*

Harry Magdoff was born in 1913 in Brooklyn, New York. His parents were Russian Jewish immigrants; his father worked as a house painter. In 1930 he began studies at the City College of New York in physics and mathematics. At City College he became active in a progressive student organization called the "Social Problems Group." During his years at CCNY, he wrote for a magazine sponsored by this group and was twice suspended for political activity by the school administration. He later joined the National Students League, a nation-wide student group, and edited their magazine, the *Student Review*. After CCNY, he attended New York University where he received his B.A. from the school of commerce.

In 1936 Magdoff joined the National Commission on Technological Unemployment and Reemployment of the Works Progress Administration. He headed a project on devising productivity measures for a number of detailed industries. The fruits of this work were published in a book, and Magdoff also published related articles in *Econometrica* and in the journal of the American Statistical Association.

After completing the WPA project in 1940, Magdoff moved to Washington, D.C. to work for the National Defense Advisory Board. He was put in charge of the Civilian Requirements Division, which along with the Military Requirements Division studied industrial capacity in order to identify potential bottlenecks which might arise in going to full capacity in event of war. After Pearl Harbor, he joined the Department of Commerce. He continued his work with the Civil Requirements Division while assuming his new duties. He was made the "program progress officer" in charge of the WPB-732 monthly statistical series on all metal working industries, which assessed output capacity in these industries; he also developed a complex system of planning and controls for production in U.S. machine tools industries.

In 1944, Magdoff became chief of the current business analysis section of the Department of Commerce. His duties included overseeing the monthly publication of the *Survey of Current Business*, for which he wrote the introduction in 1946.

In 1946, at Henry Wallace's request, Magdoff was made the special assistant to the Secretary of Commerce. Magdoff accepted this position reluctantly,

preferring his work at Commerce, which, in addition to the *Survey*, involved writing a weekly report on the economy for Cabinet meetings and preparing related analyses of current economic events. He did not relish being a general advisor. Nevertheless, he did accept, and was assigned to oversee the work of the Bureau of Standards and of the Census in addition to his chief responsibility of preparing for Wallace weekly position papers for Cabinet meetings with President Truman.

From late 1947 to mid-1948, he worked writing monthly newsletters and position papers, and also prepared congressional testimony as a policy analyst for the New Council of American Business, a group of pro-New-Deal businessmen. He also met occasionally with Henry Wallace, answering Wallace's questions on issues of economics and foreign policy during the latter's 1948 run for the Presidency on the Progressive Party ticket. Magdoff also wrote Wallace's small business platform.

After leaving the New Council, Magdoff faced troubles in finding government or policy-oriented employment in Washington, D.C. as the tide of what became McCarthyism was rising rapidly. These difficulties included inquiries from Congressional committees concerning his political background, and harassment from the Federal Bureau of Investigation. He was forced to leave Washington, D.C., move to New York, and seek employment in business. Over the next ten years, Magdoff worked first as a stockbroker and later as financial analyst for an insurance company. He and his wife also sold insurance, primarily to other radicals. In the late 1950s, he joined Russell and Russell Co., a publisher of out-of-print books, and he eventually bought an interest in the company. He remained there until 1965, when Russell and Russell was bought by Atheneum.

During these difficult years, Harry Magdoff made many efforts to stay alive politically and intellectually under less than ideal circumstances. As the American Left fell apart under the strains of the witch hunts and internal strife, Magdoff sought to develop a socialist political party in the New York area. He and a friend proposed the formation of a socialist party composed of socialists in existing parties as well as independent radicals. The agenda was to bring together from these ranks people who were committed to socialism and to fighting imperialism. There was to be no hard-and-fast political doctrine, but rather a commitment to work together, to educate for socialism, and generally to mobilize "like-minded" people to work together. Magdoff met with a variety of people, including editors from *Monthly Review*, *American Socialist* (Harry Braverman), and the *National Guardian* as well as other radical leaders. Eventually, A.J. Muste called a meeting of a number of socialist and communist parties, as well as independents, out of which came a plan to work on joint electoral action in which all would participate. While this group lasted only several years, they did run a number of candidacies, including a run by Jack McManus of the *National Guardian* for Governor of New York.

Magdoff also played a critical role in bridging the gap between the old and new lefts, a gap created in part by McCarthyism and the general right-wing reaction during the Cold War years. For example, he was instrumental in creating the Fund for Social Analysis in the mid-1950s. Magdoff grouped together some other socialists to contribute and solicit funds for scholarly studies in the area of Marxism. A review committee was selected to distribute the several thousand dollars raised and to circulate announcements in universities and professional journals indicating the availability of grants for social studies and historical work in the area of Marxism. For the first time in some years, the words "Marx" and "Marxism" appeared in scholarly journals and on university wall boards; many individuals contacted the group over the years, both for grants and often just to say that they were heartened by this activity.

Besides supporting academic efforts and radical scholarship, Magdoff engaged many organizations and youth directly in popular studies and lectures on a wide range of economic and social issues. One effort was to offer his services to unions to conduct discussion groups and classes. He had little success in directly generating interest from this quarter (although he did make a major address on the economy to the United Electrical Workers annual convention in 1964. His attempts did come to the attention of a group of liberal business men, who invited him to meet with them on a regular basis. In a quest to keep alive intellectually, he agreed to meetings over a period of several years in the various firms at which these individuals worked. Magdoff taught a class on economics using Thorstein Veblen's *Absentee Ownership* and gave presentations on business and economic trends. These activities did produce an offer to teach at the New School for Social Research—after that institution's President heard about these sessions.

Perhaps most importantly, Magdoff led a group of youngsters over many years in a weekly discussion group, the experience of which is recounted in part by the Edels in their contribution to this volume. The group started in the early 1950s with a number of 11 and 12 year olds who met at Magdoff's house every Wednesday night. Word spread, and the group grew to about 25 participants. The group typically discussed current events, while at times making forays into ethics, philosophy, and utopian schemes, often reading books together as the basis for discussions. It also acted as a forum for discussing subjects which were taboo at school. As the group members approached their senior year in high school, they asked Magdoff to teach them Marxism. He declined, on the grounds that Marx had to be learned through individual study. They did begin to read Marx, and their studies became the basis for further discussions. As the group graduated from high school and went to college, they held reunions during Christmas vacations. Reports were made on campus activities—covering the first stirrings of political action in the early 1960s, such as efforts against the House Unamerican Activities Committee and for civil rights. Ideas were put

forth about ways to organize, and experiences were exchanged. Word again spread, and by the end of the group's college years, as many as 100 participated. By this time, the student movement of the Sixties had gathered momentum, and other forums for gathering had arisen.

Magdoff also carried on a similar discussion group during the summer among youngsters in the area where he and his wife vacationed, north of New York City. And throughout all these connections, Magdoff received invitations to speak: at high schools (to discuss the New Deal), and later at colleges to discuss socialism, Marxism, the Third World, etc. In all of these forums, Magdoff strove to provide the benefits of his knowledge and experience, without lecturing formally, while encouraging his students and audiences to think critically and "get the facts."

During these years (the late 1950s and up to 1965), Magdoff also taught courses as an adjunct Professor at the New School for Social Research and at Yale University. His courses included the economics of planning, economic development, the structure of American business, the history of thought, imperialism, and Marxian economics.

He left Russell and Russell in 1965. By this point, he had developed close personal relationships with Paul Sweezy and Leo Huberman, dating back to an informal study group in the mid-1950s. Sweezy and Huberman extended the offer to join *Monthly Review* as a co-editor several times, Magdoff turning them down at each point. When Leo Huberman died in 1968, however, Magdoff agreed to join *Monthly Review*, officially appearing on the letterhead of the journal for the first time in May 1969.

Since he joined *Monthly Review*, Magdoff has continued to write and lecture widely as a leading Marxist writer on areas such as imperialism and economic crisis in the United States. His travels and lectures have taken him to the far corners of the earth, including England, Sweden, Spain, Greece, Japan, Mexico, China, Egypt, India, Venezuela, Yugoslavia, and Israel.

### Paul Sweezy

Paul Sweezy was born in New York City on April 10, 1910. He attended Phillips Exeter Academy (graduating in 1927), and attended Harvard University from 1928 to 1932, where he edited the *Harvard Crimson*. After graduating, he spent the 1932-33 academic year in London at the London School of Economics. In contrast to Harvard, where Sweezy learned little about the nature of society and world events, his year in London—at a time of deep economic depression and the rise of Hitler in Germany—provided an excellent introduction to a Marxist perspective. Among the graduate students there were many lively debates about the very pressing issues of the day, with many participating in discussions as Marxists, Communists, Trotskyites, and the

like. It was there that Sweezy decided to undertake the study of Marxism upon return to the United States.

He returned in the fall of 1933 to start work on his Ph.D. in economics at Harvard. He was assisted in his study of Marx by Shigeto Tsuru, who later contributed an appendix on reproduction schemes to Sweezy's *Theory of Capitalist Development*. Sweezy completed his dissertation in 1937 (*The English Coal Trade: 1550-1800*), which was published by Harvard the following year and for which the Harvard Economics Department awarded him the David A. Wells Prize in 1938. In 1937, he became the assistant to Professor Edward S. Mason for the latter's course on the economics of socialism. Sweezy became the instructor for this course the following year. His course was attended by a number of economists who would later be quite famous (though not as Marxian economists), including Paul Samuelson and Robert Solow. From the lecture notes for this course Sweezy wrote *The Theory of Capitalist Development*, which he completed in 1941.

While at Harvard in the 1930s, Sweezy developed a close personal friendship with Joseph Schumpeter. Sweezy assisted Schumpeter in the latter's first-year graduate course in economic theory, and Schumpeter served on Sweezy's thesis committee. According to Sweezy, Schumpeter was very important as a teacher and as a critic of Sweezy's work, but he did not significantly influence the political/ideological orientation of Sweezy's work. Their relationship is evidenced in Sweezy's rewording of Schumpeter's *Theory of Economic Development* to produce the title of his seminal work, *Theory of Capitalist Development*. Sweezy states that switching "capitalist" for "economic" was intended to emphasize his different, Marxist focus. The Sweezy-Schumpeter collaboration is also shown by the numerous citations of Sweezy's work in Schumpeter's *History of Economic Analysis*.

In 1942, Sweezy volunteered for the officer-training program in the U.S. Army. After completing basic training in anti-aircraft guns, he was offered a position in the Office of Strategic Services (OSS) by Edward Mason, a high-ranking officer and the Harvard University professor whom Sweezy had assisted earlier. Mason sent Sweezy to England, giving Sweezy the assignment of monitoring British plans for postwar economic policy. While in England, Sweezy helped start the *European Political Report*, a monthly journal on political affairs in Europe which was written by Sweezy and other progressive intellectuals in the OSS and distributed to over 400 government agencies, including the Army chief of staff. He spent some time in Berlin right after the war, and returned to the United States to be discharged from the army. While in the OSS, he received the Bronze Star.

In 1946, he received a Science Research Council grant, an award given to prominent academics who had participated in the war effort, permitting them to catch up on their studies before returning to academia. Sweezy returned to New Hampshire and spent a year reading; during this time he also wrote a book on



socialism. Recognizing that his political and intellectual views would prohibit his tenure at Harvard, he also decided at this point to resign his professorship and begin to prepare for another career. It was in the ensuing two years that he began to discuss the possibility of founding a Marxist journal with Leo Huberman and Otto Nathan. In 1948, a friend of theirs, F.O. Matthieson (a socialist and professor of literature at Harvard), inherited money from an estate. Matthieson promised to donate in December of that year \$5,000 to get the magazine off the ground, and the same amount in two succeeding years. Sweezy and Huberman became the editors, with Nathan electing to remain in the background to avoid jeopardizing his status as a professor at New York University. It was Nathan who knew Albert Einstein and arranged for Einstein to write the lead article, "Why Socialism?", for *Monthly Review's* first issue.

Sweezy and Huberman had not originally planned to run a publishing house in addition to the journal, but the floodgates of McCarthyism opened, and this was to change their course. In 1952, the radical journalist I.F. Stone wrote a monograph on the cause of the Korean War, challenging the received wisdom that North Korea actually started the conflict. No publisher would touch it. Stone went to Sweezy and Huberman with the manuscript; they knew it was important to publish the book. They took the task upon themselves, and *Monthly Review Press* was born. During the 1950s, many others in similar predicaments came to *Monthly Review*, while others sought them out in hopes of reaching the *Monthly Review* audience of socialists and progressives.

In the 1950s, a group of ex-Trotskyites, including Harry Braverman, began putting out a magazine called the *American Socialist*. *Monthly Review* and this group co-published an edition of their magazines called *American Labor at Midpassage*. Braverman worked at Grove Press, and later in the 1960s attempted to publish a book by Bertrand Russell on Vietnam. Grove refused, and after consultation with Sweezy and Huberman, Braverman resigned his post at Grove Press and joined *Monthly Review* as the editor of their press. As Sweezy puts it, Braverman's presence "professionalized *Monthly Review Press*."

The work of Sweezy and his associates at *Monthly Review* in the 1960s played a central role in the anti-war/anti-imperialist movements of those years, as well as directly participating in the emergence of a new generation of radical economists. Sweezy—and his increasingly close collaborator, Stanford University economics professor Paul A. Baran—traveled with Huberman several times to Cuba in the early 1960s, publishing a number of accounts of the early stages of the Western Hemisphere's first socialist revolution. Sweezy contributed (and encouraged the contributions of several others, including several authors in this volume) to the growing Marxist debates on relations between the Third World and advanced capitalist economies. *Monthly Review's* writings on Vietnam and China, and Baran and Sweezy's on *Monopoly Capital*, were major points of departure for the radical analysis emerging within the New Left.

Also, Harry Magdoff joined *Monthly Review* in 1968 and published his *Age of Imperialism* in 1969. Sweezy continued to participate actively in developing Marxist analysis in universities. For example, in the early 1970s Sweezy was invited to Cambridge University as a prestigious Marshall Lecturer (his lecture "On the Theory of Monopoly Capitalism" was published later in *Modern Capitalism and Other Essays*). His talks to the new American Union of Radical Political Economists (URPE) included a famous presentation using the concepts of Thomas S. Kuhn's *Structure of Scientific Revolutions* to develop a critique of mainstream economics.

At the same time, the clamor among students for the appointment of radical professors at American universities did not succeed in persuading Cold War liberals and conservatives to change their ways. For example, students at Yale University demanded the appointment of a Marxist economist; Sweezy was the obvious candidate. However, the Yale department was not about to break precedent and appoint a Marxist with tenure, and offered rather a one-year visiting position. Sweezy declined, "preferring not to help them [the Yale faculty] out."

In recent years, Sweezy has continued his central role at *Monthly Review*, been active in a wide array of socialist and Marxist causes, and focused his theoretical work on basic issues in Marxist theory (as evidenced by his "Four Lectures on Marxism" delivered at Hosei University in Tokyo in 1979) and on Marxist analyses of existing socialist economies.

#### *A Note on Monthly Review Press*

Since its start in the early 1950s, *Monthly Review Press* has been enormously successful in disseminating important work done by Marxist scholars. At times (particularly in the 1950s), authors went to *Monthly Review* because of anti-Marxist sentiment at other publishers, but most authors chose *Monthly Review* to publish their work to reach its particular audience. Major works by writers closely associated with *Monthly Review* have had large sales and have been translated into many languages. In the United States, Harry Braverman's *Labor and Monopoly Capital* has had sales over 100,000 as of 1984, and this work, Baran and Sweezy's *Monopoly Capital*, and Magdoff's *Age of Imperialism*, have together had sales of almost 300,000 copies. Influential works, including Paul Baran's *Political Economy of Growth* (a seminal work which provided the foundation of Marxist dependency theory), Paul Sweezy's *The Theory of Capitalist Development*, and Leo Huberman's *Man's Worldly Goods* have each sold 40-50,000 copies. These major works have been translated into at least 25 different languages, including most European languages, Swahili, Urdu, Japanese, Serbo-Croatian, Hebrew, and Hindi. These translations have also been widely read; *Man's Worldly Goods*, *The Political Economy of*

*Growth*, and Fritz Poppenheim's *The Alienation of Modern Man* have sold roughly 300,000 copies each; *Man's Worldly Goods* is in its 20th printing in Portuguese. In recent years, *Monthly Review* has broadened its scope, particularly with the start of the New Feminist Library in 1983. This series follows on the heels of several important feminist works published earlier by *Monthly Review*, including Rayna Reiter's *Toward an Anthropology of Women* and Zillah Eisenstein, (editor), *Capitalist Patriarchy and the Case for Socialist Feminism*.

I would like to thank Dr. Aleine Austin and the Robert F. Wagner Labor Archive's Oral History of the Left Project for use of taped interviews with Harry Magdoff and Paul Sweezy. Many thanks also go to Magdoff and Sweezy for their kind and extensive cooperation with the preparation of both the Biographical Notes and the Bibliographies in this volume.

## Harry Magdoff and Paul Sweezy: Selected Bibliographies Michael Hillard

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