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# THE PROCESS OF ACCUMULATION AND THE "PROFIT-SQUEEZE" HYPOTHESIS

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FOR DECADES UNDERCONSUMPTIONISM dominated the thinking of American Marxists, and while it still has some currency, the revival of interest in Marx's work has weakened its ideological hold as a new generation of Marxists have rediscovered the criticisms of this position by Engels, Lenin and other writers of the 19th and early 20th century.[1] As underconsumptionism has waned, profit-squeeze theories have waxed. This hypothesis — that rising wages result in falling profits — is generally considered an "advance" on underconsumptionism, by bringing to center stage "the class struggle," even if commentators do not completely agree with it.[2] The purpose of this paper is to demonstrate that the profit-squeeze hypothesis not only is not an advance, but is a great leap backwards, for it rejects *in toto* Marx's contribution to political economy in favor of Ricardo's. Specifically, it will be argued that 1) to the extent that the profit-squeeze hypothesis is offered as a theory of crisis, it is wrong; 2) to the more modest extent that it is presented as a theory of the timing of crisis or of state fiscal policy, it is also wrong; and 3) in so far as it seeks only to analyze the role of wages in the cycle of accumulation, it is still wrong. In short, under close examination, the profit-squeeze hypothesis is satisfactory neither as theory nor as description.

1 Frederick Engels, *Anti-Dühring* (Peking, 1976), and V. I. Lenin, "A Characterization of Economic Romanticism," *Collected Works* (Moscow, 1972), Vol. II, and "On the So-called Market Question," *Collected Works*, Vol. I.

2 "The theory of the profit squeeze has the considerable merit of bringing the class struggle into the very heart of a theory of accumulation and crisis." Erik Olin Wright, "Alternative Perspectives in Marxist Theory of Accumulation and Crisis," in Jesse Schwartz (ed.), *The Subtle Anatomy of Capitalism* (Santa Monica, 1977), p. 217.

*I. The Hypothesis as Such*

The essence of the profit-squeeze hypothesis is disarmingly simple: in the process of accumulation, the reserve army of the unemployed declines, which leads to rising "real wages" (a term whose ambiguous use is considered below), which reduces profits. At this point, a higher level of unemployment becomes an objective necessity for capital in order to reestablish normal profitability; this inevitably drives down "real wages." Whether this is a general theory of crisis or of "fiscal policy" is largely semantic, for all writers in this school agree that rising "real wages" eventually require an interruption in the normal circuit of capital, whether brought about automatically or by the conscious design of the bourgeoisie through the state. The hypothesis presents itself in many forms, from the very simplistic, with virtually no use of Marxian categories,[3] to the sophisticated.[4] Here, we shall deal first with the very simple form of the hypothesis and briefly consider criticisms that have been made of it. We shall see that the criticisms of the simple profit-squeeze hypothesis do not get to the heart of the matter, because, like those they are criticizing, the critics fail clearly to distinguish between expanded reproduction and accumulation. By expanded reproduction we mean the purely quantitative expansion of the circuits of capital, and by accumulation we mean the expansionary process that incorporates the development of the forces of production, concentration and centralization, and the establishment of new values.[5]

Body and Crotty summarize their position as follows:

> We view the erosion of profits as the result of successful class struggle waged by labor against capital — struggle that is confined and ultimately reversed by the relaxation of demand and the rise in unemployment engineered by the capitalists and acquiesced in and abetted by the state.[6]

3 Radford Body and James Crotty, "Class Conflict and Macro-Policy: The Political Business Cycle," *Review of Radical Political Economics*, 7, 1 (Spring, 1975).

4 Makoto Itoh, "The Formation of Marx's Theory of Crisis," *Science & Society*, XLII, 2 (Summer, 1978), 129–155.

5 Wright fails to make this distinction when he writes, "the *rate* of accumulation can be expressed as $(\Delta C + \Delta V)/(C + V)$." This formula could equally apply to expanded reproduction. Wright, *op. cit.*, p. 200.

6 Body and Crotty, *op. cit.*, p. 1. It is beyond the scope of this paper to analyze the implicit view of class struggle in this quotation, but it should be noted that the class struggle is here equated with the wage struggle.

In the view of these authors, the expansion of capital provides the demand for labor power, and demographic and other social factors determine the supply of labor. As capital expands, the industrial reserve army is reduced. This tightening of labor markets strengthens the economic power of the working class, and wages rise. Rising wages reduce profits, and the reduction of profits requires a response on the part of capitalists to eliminate the cause of rising wages, which is a low level of unemployment. The authors consider this to be consistent with "the Marxian concept of cycle," which presumably means consistent with Marx's theory of crisis.[7] The foregoing summary of the Body and Crotty profit-squeeze hypothesis involves a number of implicit theoretical positions, and it is useful to make these explicit. First, the supply of labor-power is treated as determined independently of the demand for labor-power. Second, and related to the first, accumulation is treated in a purely quantitative way, and is seen as demand-generated. Third, a "tight" labor market generates a *general* rise in "real" wages, which implies that wages themselves are determined in circulation. And fourth, the wage-profit relationship is treated statically, implicitly in terms of the Sraffian wage-rate-profit-rate frontier.[8] In our critique, we will take issue with each of these positions.

Criticism of the profit-squeeze hypothesis, particularly as put forward by Body and Crotty, has generally focused on one or another of these four implicit positions. Wright bases his criticism on the second, when he argues that "the level of productivity . . . plays almost no role in the view of the rate of exploitation."[9] While this is certainly correct, and a promising line of

7 While the phrase, "the Marxian concept of cycle" is ambiguous, Body and Crotty seem to suggest that Marx thought "the cycle" to be caused by rising wages which reduce profits. Marx did comment on this view: "The tendency of the rate of profit to fall is bound up with a tendency of the rate of exploitation to *rise*, hence with a tendency for the rate of labor exploitation to *rise*. Nothing is more absurd, for this reason, than to explain the fall in the rate of profit by a rise in the rate of wages, although this may be the case by way of an exception." Karl Marx, *Capital* (London and Moscow, 1972), Vol. III, p. 240.

This would seem to identify Marx fairly conclusively with a position contrary to what Body and Crotty call "the Marxian concept of cycle." This does not of itself make their position wrong.

8 See John Broome, "The Sraffa-Leontief Model," Birkbeck College, Department of Economics, Discussion Paper (London, 1973).

9 Because of the great theoretical similarity between Body and Crotty and Glyn and

departure, its theoretical implications are lost in Wright's own eclectic treatment of crises. In effect, he accepts the profit-rate-wage-rate frontier analysis, which places distributional struggles as key, and only calls for a more complex treatment of them in relation to underconsumptionist theory and his own particular view of the tendency of the rate of profit to fall. He criticizes the profit-squeeze thesis for being mono-causal, not for being incorrect.[10] Bell takes a similar position, arguing that "although class struggle certainly occurs around the distribution of national product in the sphere of circulation, it must first be analyzed in terms of value relations in the sphere of production. . . ."[11] He does not pursue this as a critique, however, but incorporates it into the profit-squeeze hypothesis, as Dobb does.[12] He also feels that Body and Crotty have committed the sin of mono-causality and, with Wright, applauds the profit-squeeze for delivering "class struggle" from the wilderness.[13]

By far the most serious recent critique of the profit-squeeze hypothesis is that of Shaikh, who rejects the hypothesis out of hand as theoretically invalid and concerned only with the appearance of things.[14] To individual capitalists, a fall in profitability can appear in only two forms — failure to sell what is produced, or failure to sell it at a sufficient profit rate. The latter must involve a rise in costs relative to price. The profit-squeeze

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Sutcliffe, I do not consider the latter authors. See Andrew Glyn and Bob Sutcliffe, *British Capitalism, Workers and the Profit Squeeze* (London, 1972).

10 To quote Wright, "The same class struggle over wages will have very different consequences depending upon whether the accumulation process is dominated by the dynamics described in the rising organic composition of capital/falling rate of profit view of crisis or in the underconsumptionist view." Wright, *op. cit.*, p. 217. His view of the "organic composition of capital/falling rate of profit" explanation is similar to that of Dobb. See discussion of Bell's work, below.

11 Peter F. Bell, "Marxist Theory, Class Struggle, and the Crisis of Capitalism," in Schwartz (ed.), *op. cit.*, p. 184.

12 In Dobb's view the value composition of capital rises as a consequence of wage increases, which stimulates capitalists to substitute dead for living labor. M. Dobb, *Political Economy and Capitalism: Some Essays on Economic Transition* (London, 1973), pp. 157ff. For a critique, see Anwar Shaikh, "Political Economy and Capitalism: Notes on Dobb's Theory of Crisis," *Cambridge Journal of Economics*, 1978 (2), pp. 233–51.

13 "These analyses are an important advance in that they deal with actual social processes and place class struggle at the center of the explanation of the crises of capitalism." Bell, *op. cit.*, p. 182.

14 Anwar Shaikh, "An Introduction to the History of Crisis Theories," in Economic Education Project, *U.S. Capitalism in Crisis* (New York, 1978), pp. 219–241.

hypothesis is merely the generalization of this perception to capital as a whole. To demonstrate the error of this reasoning, Shaikh analyzes the relationship between the abstract concepts surplus value and variable capital, on the one hand, and the empirical concepts net corporate income ("profits" as they appear) and wage income.[15] He argues that the profit-squeeze theorists equate S/V with P/W, and in doing so confuse the manifestation of the underlying causal variables with those variables themselves. This is an extremely important point. For if it were possible to understand the accumulation process from the appearance of economic phenomena, there would be no need to utilize concepts like value, surplus value, variable capital, etc. However, as important as Shaikh's point is, it does not seriously damage the profit-squeeze hypothesis unless it is pursued *further.* What must be demonstrated is that the failure to distinguish between surplus value and variable capital, on the one hand, and wages and profit, on the other, makes a scientific consideration of the latter impossible. Put another way, the profit-squeeze theorists could accept Shaikh's criticism and reply that it in no way affects their contention that rising wages lead to falling profits, a proposition which is presented as essentially empirical.

We seek to demonstrate that the analysis implied by Shaikh's critique implies that all of the four basic positions of the profit-squeeze hypothesis are wrong. To do this, we first consider the work of Itoh, which integrates the hypothesis with what appears at first glance to be a Marxian method, and in which the basic theoretical elements of the hypothesis become explicit.

## *II. Itoh's Theory of the "Overproduction of Capital"*

Itoh's work draws heavily upon the writings of Marx, something largely absent in the writings of Body and Crotty, and as a

15 We take issue with a point in Shaikh's analysis, where he refers to surplus value as "this complex and powerful Marxian category" and by implication suggests that the bourgeois category of profit is less complex. As a point of method, we would argue that surplus value is the simple concept, because it is *abstract,* and the empirical category is more complex. For example, surplus value can be conceptualized and analyzed without considering the competition among capitals, or even the existence of many capitals. Profit, on the other hand, can be conceptualized only subsequent to an analysis of the complexities of competition. For a discussion of this general methodological point, see Ben Fine and Laurence Harris, *Re-Reading Capital* (London, forthcoming), Chap. 1. This point does not affect Shaikh's conclusion.

result is analytically richer than other profit-squeeze theories. Thus while it is virtually impossible to oversimplify the Body-Crotty and Glyn and Sutcliffe theories, this is a danger in the case of Itoh. The author distinguishes between his theory of crisis and underconsumptionism with the descriptive labels "over-production of capital in relation to the laboring population" and "the excess commodity theory."[16] There is imprecision here, since in a capitalist society commodities are also capital, *commodity*-capital, one of the forms assumed by capital in its circuit M — C . . . P . . . C′ — M′, where M and C stand for money-capital and commodity-capital and P the moment of production. With this circuit in mind, we can identify the underconsumptionist hypothesis as "overproduction of capital with respect to the capacity to consume."[17] Neither of these is Marx's theory, which we can call "the over-production of capital in relation to surplus value produced."[18]

Itoh's theory can be summarized as follows. The existence of fixed capital discourages the introduction of new plants and machinery, which occurs on a large scale only when economic conditions create favorable conditions for widespread revolutionizing of the means of production. Here, Itoh seizes upon Marx's analysis of fixed capital in Vol. II.[19] What makes fixed capital "fixed" is that its value is "fixated" in material objects which have a lifespan beyond a single circuit of capital. The argument of Itoh is that capitalists will resist replacing fixed capital until its value is exhausted. This exhaustion can occur by depreciation (the transfer of value to commodities), or by a sudden fall in the exchange value of fixed capital due to market conditions. The latter will tend to occur in dramatic fashion during a crisis, when the inability to realize commodities renders fixed capital in part redundant. From this line of argument, it follows that new ma-

16 Itoh, *op. cit.*, p. 130. We shall not deal here with another article by Itoh, which makes the same analysis. Makoto Itoh, "The Inflational Crisis of Capitalism," *Capital and Class*, 4 (Spring, 1977).

17 This is not merely a semantic difference, but provides the basis for the critique of underconsumptionism. Once it is recognized that commodities are capital, consumption demand is revealed as secondary to the demand among capitalists for commodities. Shaikh demonstrates this well. Shaikh, *op. cit.*, pp. 226–231.

18 An analysis of the falling rate of profit and the counteracting tendencies to it lies outside the scope of this paper. See Fine and Harris, *op. cit.*, Chap. 4.

19 *Capital*, II, Chaps. VIII and IX.

chinery will be introduced — and productivity raised — during a crisis, while during the expansion phase this will occur only as an exception. In other words, accumulation proceeds without the "relative overpopulation" generated by the expelling of living labor.

Itoh begins his analysis with the process of expansion and proceeds to crisis. To understand his theory, it is useful to proceed first from crisis and then to see how one returns to a crisis situation. With the crisis, fictitious capital values fall, drastically cheapening fixed capital.[20] This allows old fixed capital to be eliminated and new to be installed, and is purely a *price* phenomenon. That is, the older means of production are not replaced because of a competitive struggle between more and less efficient capitals, but because it becomes relatively cheap to do so.[21] Were competition the impetus to revolutionizing the forces of production, it would be arbitrary to restrict this revolutionizing to the period of crisis. The process of replacement sets off a quantitative expansion of capital and revival is under way. In the crisis, the limit to the future expansion of capital is set. Since the revolutionizing of the means of production occurs only in the crisis, accumulation proceeds quantitatively — at a given ratio of constant to variable capital — and reaches its limit when the industrial reserve army is eliminated. The potential size of the reserve army is determined in the crisis by the extent to which living labor is expelled from production. If the introduction of machinery is fragmentary and limited, the resultant expansion will be correspondingly brief, because of the limited extent to which labor-power has been rendered redundant. Speaking very simply, we can summarize by saying that in the crisis all the qualita-

20 Itoh makes no distinction between fictitious capital and fixed capital, though this distinction is crucial to the process he describes. See *Capital*, III, Chaps. XXIX–XXXII; and Ben Fine, "The World Economy and Inflation Theory: An Interpretation and Critique," in Nore and Green (eds.), *Issues in Political Economy* (London, forthcoming).

21 ". . . in contrast with the prosperity period, the existing fixed capitals [*sic*] are in general no longer profitable, and so there is pressure to depreciate them in order that they may be renewed as soon as possible. When most capitals in the main branches of production come to depreciate a large proportion of the value of their fixed capitals [*sic*] and amass their own money capital sufficient to invest in new equipment, then they adopt new methods of production through renewals of fixed capitals [*sic*]." Itoh, *op, cit.*, p. 153. Itoh presumably means the *fixed capital* of individual capitals.

tive changes occur and lay a strict basis for a predetermined quantitative expansion of capital.

This analysis is certainly an improvement on the Body-Crotty view, since it explains how each period of accumulation involves a higher level of total production and production per worker. Once the "initial conditions" are given by the qualitative changes during the crisis, accumulation proceeds. As accumulation advances, the reserve army contracts and there is a *general* upward pressure on wages; this is what Itoh calls "the over-production of capital in relation to the laboring population."[22] Here, again, his analysis is more sophisticated than that of other profit-squeeze writers, for he does not directly argue that rising wages cause profits to fall. Rather, rising wages increase the demand for money-capital, for capitalists require more money to advance as variable capital. This pushes up the market rate of interest and "the net profits of industrial and commercial capitalists are dramatically squeezed by a rise of both wages and interest."[23] This sets off a credit crisis, which transforms itself into a full-blown crisis. It should be noted, in anticipation of our critique, that this consideration of the contradictions between industrial and finance capital is Itoh's only reference to competition.

We can now summarize the cyclical nature of capitalist production according to Itoh. Crisis creates an absolute and relative surplus population through the depreciation of fixed capital and its replacement. Expansion occurs quantitatively on the basis of this surplus population and reaches a new peak. "Over-production of capital" generates a general rise in wages, which sets off a credit crisis, which initiates a general crisis. In the theory, a *general* rise in wages is introduced explicitly and accumulation is explicitly seen as quantitative. However, it does appear that the supply of labor-power is no longer exogenous, and that the Sraffian wage-rate-profit-rate relationship is rejected in favor of a wage-profit-interest mechanism. Below, we

22 He argues that this is Marx's theory. ". . . [I]n section III of Chapter XV of the third volume of *Capital* Marx tries to show that 'a steep and sudden fall in the general rate of profit' due to 'absolute over-production of capital . . . in a ratio to the laboring population' brings forth cyclical crises." (Itoh, *op. cit.*, p. 130). We dispute that Marx attempted to show this in Volume I or any other place.

23 The problem of overproduction of capital in relation to laboring population is expressed in a shortage of loanable money capital. *Ibid.*, p. 151.

will show that in fact all four of the basic profit-squeeze positions are retained in essence.

### *III. Accumulation, Wages and the Profit-Squeeze Hypothesis*

#### *A. Nature of the Accumulation Process*

Since the product of living labor presents itself in capitalist society as profit and wages, it is superficial and obvious to ask whether accumulation can be *systematically* affected adversely by an increase in wages. It is precisely this question that Marx addresses in Vol. I of *Capital*, in the chapter called "The General Law of Capitalist Accumulation." In the first section of this chapter, he lays out the conclusion to which his subsequent analysis will bring him:

> The rise of wages therefore is confined within limits that not only leave intact the foundations of the capitalist system, but also secure its reproduction on a progressive scale. The law of capitalistic accumulation, metamorphosed by economists into a pretended Law of Nature, in reality merely states that the very nature of accumulation excludes every diminution in the degree of exploitation of labor, and every rise in the price of labor, which could seriously imperil the continual reproduction, on an ever-enlarging scale, of the capitalistic relation.[24]

First, it should be noted that Marx is unambiguously clear in his opinion. Here, in Marx's most mature work, in the only volume of that work which he himself rendered in final form for publication, he categorically and without qualification rejects the idea that accumulation can be "seriously imperiled" by rising wages. However, more important than the conclusion itself, which he repeats elsewhere,[25] is how he reached it. In the quotation above we are told that accumulation *itself* "excludes every diminution in the degree of exploitation. . . ." We now turn to an analysis of accumulation. In doing so, we seek to analyze the conditions under which the process of accumulation leads to a rise in the value of labor-power, for such a rise is crucial to the profit-squeeze hypothesis. If the value of labor-power does not rise, the rate of surplus value does not fall, and profits are not "squeezed."

24 *Capital*, I, p. 382.
25 See Marx's comment from Vol. III, quoted in footnote 7.

Accumulation is both the expansion of capital-as-a-whole and the interaction of individual capitals in that expansion. If we consider only the possibility of expanded reproduction, as Marx does in Volume II of *Capital*, we can abstract from the interaction of capitals, from competition. But the process of accumulation is more complex than this and must incorporate the competitive contradiction.[26] That is, accumulation as a concept seeks to encompass the actual process of the expansion of capital, as opposed to merely the formal possibility of capital's reproduction on an expanding scale. In the actual process of accumulation, as each capital grows (the *concentration* of production), it comes into conflict with other capitals, and "the battle of competition is fought by cheapening of commodities."[27] The discipline of competition forces upon capitals the necessity to raise the productivity of labor, which by definition involves the expelling of living labor from the production process. Productivity increase can only mean that a given number of workers transforms a growing mass of products per unit of time.[28] Thus, the process of accumulation involves the values of commodities falling. This process of productivity increase is achieved both by the concentration of capital (accumulation by individual capitals) and centralization (the redistribution of existing capital). At the level of appearances, centralization takes the form of mergers, takeovers, and the actual elimination of smaller capitals. In this process, the larger, more efficient capitals gain access to the labor-power and the means of production of smaller capitals.[29]

This characterization of the process of accumulation — reproduction on an expanded scale accompanied by productivity change and the centralization of capital — is basic to Marx's analysis and would seem unexceptionable. To argue that productivity increases and centralization are not part of the accumula-

26 For a discussion of why competition is inherent in capital, see John Weeks, "Marx's Theory of Competition" (Washington: mimeo, 1978). An earlier version of this was presented to the Allied Social Sciences Association Conference, Union for Radical Political Economists, December, 1977.

27 *Capital*, I, p. 586.

28 This results in what Marx called the "law of the progressive increase in constant capital, in proportion to the variable" (*Capital*, I, p. 583), but whether or not the value composition of capital actually increases is immaterial to the present discussion. Here we consider productivity change alone.

29 *Ibid.*, pp. 586–588.

tion process is theoretically in error since it ignores the pressure of competition, as well as empirically absurd. Yet this is exactly the position of those who hold the profit-squeeze hypothesis.

*B. The General Law of Capitalist Accumulation*

The profit-squeeze theorists, and Itoh most explicitly, treat Marx's discussion of expanded reproduction (Vol. II, Chapter XXI) as if it were a system of accumulation. In this discussion, where Marx is refuting the underconsumptionist position that capital is incapable of self-reproduction, expanded reproduction occurs at a given technical composition of capital. In effect, this is Itoh's view of accumulation. From the previous discussion of accumulation, it should be clear that nothing meaningful can be concluded about the dynamics of capital's expansion from such a view, for it only establishes the formal possibility of expansion; it is only a consideration of realization for capital as a whole.

The process of accumulation, as opposed to expanded reproduction, involves the expulsion of living labor from production, and in this process capital affects both the demand for and the supply of labor-power. Each mode of production produces its own characterisitc law of population, and under capitalist relations of production the supply of labor-power is in part determined by *capital*, not by the absolute size of the labor force alone or its natural rate of increase.[30] This theoretical insight is one of the most important which Marx developed, breaking completely with the bourgeois view that the supply and demand for labor are determined independently of each other. In the accumulation process, capital increases the demand for labor with one hand (through the expansion of total capital), and *simultaneously* increases the supply with the other hand (by expelling living labor). The actual size of the reserve army, so crucial to the profit-squeeze hypothesis, is the consequence of the balance of the demand-and-supply-creating tendencies in the accumulation process, given demographic factors, which are parameters in the

30 "The laboring population therefore produces, *along with the accumulation of capital produced by it*, the means by which it itself is made relatively superfluous, is turned into a relative surplus-population; and it does this to an always increasing extent. *This is a law of population peculiar to the capitalist mode of production*; and in fact every special historic mode of production has its own special laws of population, historically valid within its limits alone" (*Capital*, I, pp. 591–592, emphasis added).

short term. All of the profit-squeeze theorists treat accumulation in a mature capitalist society as if it were occurring in the stage of "manufacture" (to use Marx's term), when the production of absolute surplus value is dominant.[31] This is explicitly Itoh's position, for in his characterization of accumulation, relative surplus value is raised only during the crisis itself, and subsequent expansion is on the basis of absolute surplus value. Such a dichotomy is totally arbitrary, conforming only to the mechanistic needs of his theory, not to reality.

The expelling of living labor during accumulation does not ensure that labor power will be always in adequate supply. It is not a magic wand, by means of which productivity increases always conjure up the labor-power capital needs. But "the general law of capitalist accumulation" (or "the law of surplus population") implies that any serious discussion of what happens to the reserve army during accumulation must consider technical change and its relation to accumulation. By this basic standard, all profit-squeeze theories fail. To put the matter simply: the heart of their argument is the relationship between the reserve army and accumulation, and they fail to analyze this relation except at the most superficial level. In particular, they must demonstrate that there is a *systematic* tendency for productivity change to occur at a rate insufficient to replenish the reserve army, but do not do so. If this cannot be established, then, as Marx wrote, a declining reserve army raises wages and lowers the rare of profit "by way of an exception."[32]

We can summarize our first criticism of the profit-squeeze hypothesis: while seeking to analyze the supply and demand for labor-power in the process of accumulation, it ignores what makes capitalist accumulation different from all previous modes of the accumulation of wealth; namely, that capitalist accumulation is based upon the continual revolutionizing of the means of production. In Marx's words:

31 Describing this early period when capital "takes the production process as it finds it," Marx writes: "The composition of capital changed but very slowly. With [capital's] accumulation, therefore, there kept pace, on the whole, a corresponding growth in the demand for labor. Slow as was the advance of accumulation, *compared with that of more modern times*, it found a check in the natural limits of the exploitable laboring population . . ." (*Ibid.*, p. 593, emphasis added).

32 *Ibid.*, III, p. 240, quoted in footnote 7.

> Capitalist production can by no means content itself with the quality of disposable labor-power which the natural increase of population yields. It requires for its free play an industrial reserve army independent of these natural limits. . . .
>
> The production of a relative surplus-population or the setting free of laborers, goes on therefore yet more rapidly than the technical revolution of the process of production that accompanies, and is accelerated by, the advance of accumulation.[33]

At the beginning of Part III of this paper, we quoted Marx as saving that the rise of wages during accumulation “is confined within limits . . . that secure capital’s reproduction.” The first reason for this is that accumulation *itself* provides a supply of labor independently of the size or growth of the laboring population. The second reason is that the same process which replenishes the reserve army cheapens labor-power, which we now consider.

### *C. Accumulation and the Value of Labor-Power*

To individual capitals, or the capitalists who personify those capitals, the introduction of new and more advanced machinery is motivated by the necessity to keep pace with other capitals: in short, to produce that commodity at a lower cost, and in doing so, to maintain or expand a particular capital’s share of the market. However, for capital as a whole, this is the means by which relative surplus value is extracted. What for individual capitals is the means for competition with one another is, for capital as a whole, the means to intensify the exploitation of labor. To quote Marx:

> Like every other increase in the productiveness of labor, machinery is intended to cheapen commodities, and, by shortening that portion of the working day in which the laborer works for himself, to lengthen the other portion he gives, without an equivalent, to the capitalist. In short, it is a means for producing surplus-value.[34]

Productivity increases raise relative surplus value for capital as a whole as long as they occur in branches of industry which

33 *Ibid.*, I, pp. 594, 595.
34 *Ibid.*, I, p. 351.

produce the means of consumption of workers, or the means of production employed to produce those means of consumption, i.e., when they occur in non-luxury commodities.[35] That profit derives from surplus value is the basis of Marx's theory, presumably accepted by the profit-squeeze theorists. Surplus value is valorized surplus labor time — the difference between total working time and necessary labor time. Productivity increases, which by definition reduce the *value* of commodities, reduce necessary labor time (the value of labor-power) unless confined to the production of luxury commodities. For the means of consumption, this is obvious and direct: productivity increases in this case directly reduce the value of the commodities workers consume. In the case of the means of production, productivity increases reduce the value of the constant capital advanced for the production of the means of consumption. The *value of labor-power,* which determines the wage, can be written as

$$W = VX$$

Where $W$ = value of labor power, a number;

$V$ = the vector of the values of all commodities which workers consume; and

$X$ = a vector of the physical quantities of the commodities workers consume.

When profit-squeeze theorists speak of the "real wage" rising, they confuse $W$ and $X$. The vector $X$ reflects the *standard of living* of the working class, as it is a vector of *use-values.* It is a "real wage" in that it measures the material consumption of the working class. However, $W$ is also a "real wage," in that it measures in abstract necessary labor time the cost of a unit of labor-power to the capitalist, though perhaps the term "the exchange value of labor-power" would be more precise. The profit-squeeze theorists proceed as if the two were identical, as if workers' wage demands were aimed at raising $W$, while in fact they are aimed at raising $X$. This confusion is serious, because the standard of liv-

35 "Hence, a fall in the value of labor power is . . . brought about by an increase in the productiveness of labor, and by a corresponding cheapening of commodities in those industries which supply the instruments of labor and the raw materials, that form the material elements of the constant capital required for producing the necessities of life (*Ibid.*, p. 299).

ing can *rise*, while the labor time necessary to produce that standard of living can *fall*, i.e., workers can become better off, while the value of labor-power falls. Indeed, this is precisely what happens in the process of accumulation.

One might think that this relationship can be epitomized by saying that profits will fall if "real wages" (*X*) rise faster than productivity (which causes *V* to fall). This formulation is imprecise, however, since it confuses two processes, the decline of *V* and the rise of *X*. While it is true that the value of labor-power will rise if *X* ("real wages) rises faster than *V* (the values of wage commodities) falls, this algebraic definitional statement does not explain the conditions under which *X* would rise faster than *V* falls. Indeed, it implies that the two are independent of each other, while, *in fact*, the rise in the "real wage" is negatively related to the fall in values. As productivity increases, simultaneous processes occur: values decline, which tends to reduce the value of labor-power (*W*), and *the reserve army is replenished*, which tends to weaken the ability of the working class to raise its standard of living, thus, to the extent that profit-squeeze theorists consider productivity increases, they ignore the second process. With these two processes operating simultaneously, the accumulation of capital will lead to a rise in the value of labor-power (and a fall in surplus value) only if it is sufficiently rapid to offset both the continual replenishing of the reserve army by productivity change, which would lead to *X* rising ("real wages"), *and* the continuous fall in values, which counteracts the rise in *X*. Speaking mechanically, we have here two parameters: the parameter which relates the rate of productivity change to the rate of accumulation (which determines the rate at which the reserve army is replenished and the rate at which values fall), and the parameter which relates the growth of labor demand to increases in real wages. It is simple to demonstrate that there exists a range of values for these two parameters for which no rate of accumulation, no matter how high will give a rising value of labor-power.[36]

The point here is not to degenerate into a mathematical specification of the conditions under which necessary labor time

36 An earlier version of this paper provides a numerical example of this relationship between accumulation and the value of labor-power.

will rise in relation to surplus labor time, but to demonstrate theoretically that the accumulation process itself generates tendencies to counteract the tendency for surplus value to be squeezed, and as a tendency "the rise of wages therefore is confined within limits that not only leave intact the foundations of the capitalist system, but also secure its reproduction on a progressive scale."[37] This statement of Marx's is thus not an opinion, but a scientifically derived conclusion, based on the analysis of the accumulation process. Accumulation generates, *through its internal operation*, the solution to the potential problem of rising wages, without necessarily requiring interruption of that accumulation. This is not mere theory, but enables us to understand how a capitalist economy, like that of Japan, could accumulate at rates of eight to ten percent per year for over a decade, an empirical fact incomprehensible to the profit-squeeze hypothesis. Here it must be made clear what has been demonstrated. We have not shown that the process of accumulation cannot give rise to a momentary fall in the rate of surplus value; rather, we have shown that the profit-squeeze theory does not demonstrate why and the circumstances under which this *would* occur.

We can go farther, and on the basis of Marx's analysis, consider what would happen if it were the case, "by way of exception," that the value of labor-power were to rise during accumulation, and surplus value were reduced in consequence.[38] This would occur if the process of accumulation generated a rate of productivity growth which was insufficient to replenish the reserve army, setting off rising real wages, which it was inadequate to offset by the cheapening of commodities. Marx considered this case, and had a simple answer: when the accumulation of capital is such that surplus value is reduced by rising wages, the rate of accumulation slows its pace, then accelerates again when the reserve army has been sufficiently replenished. But this *does not* lead to crisis, only to the adjustment of the tempo of accumulation.[39]

37 *Capital*, I, p. 582.

38 Since the working day is divided between necessary and surplus labor time, and living labor is the source of surplus value, a rise in the former must imply a fall in the latter.

39 *Capital*, I, pp. 596–598.

*D. Why Is a Crisis Necessary?*

Up to this point we have been demonstrating that a fall in surplus value as a result of rising "real wages" occurs as an exception. We can ask a further question: when this exception occurs, why is a major contraction of capital necessary — either induced by the state or otherwise — to rectify the situation? Another way to pose this question is to ask, what is the mechanism which transforms a squeeze on surplus value into a crisis?

Body and Crotty argue that the state intervenes — an intervention "engineered by the capitalists" — to arrest the accumulation process and generate unemployment. This, of course, presupposes that a major, or at least significant, downturn is necessary. Thus they are quite correct in their modest claim that they do not have a theory of crisis, but they also do not have a "theory of fiscal policy," since the fiscal policy they consider to be in the objective interests of the capitalists presupposes the need for a crisis.

Itoh, as we have seen, does provide a mechanism which transforms rising wages into a crisis, namely through a credit squeeze. He argues that rising wages increase the demand for money to be used as variable capital advanced, and this pushes up interest rates. This, like other aspects of the profit-squeeze hypothesis, is an old argument, current in even Marx's time. It is merely a special case of the view that accumulation is at times constrained by the amount of the means of circulation available. In effect, Itoh is arguing that the rise in price of a particular commodity — in this case labor-power — results in insufficient money to circulate all commodities (or value) produced and this insufficiency manifests itself in a rise in the rate of interest. It is beyond the scope of this paper to develop Marx's theory of money except for what is necessary to consider Itoh's crisis mechanism, but it should be noted that the scientific analysis of money developed by Marx demonstrates the purely *passive* role of the means of circulation in the accumulation process, revealing that it is accumulation which determines the amount of money in circulation.[40]

40 Shaikh summarizes Marx's analysis well in Anwar Shaikh, "On the Laws of International Exchange" (New School for Social Research, ms., 1977). Marx wrote: "The

A detailed analysis of the theory of money is not necessary to refute Itoh's crisis mechanism, however, for it can easily be demonstrated that a rise in money wages has no net impact on the demand for money. At any moment, circuits of capital overlap during accumulation, and the money capital for constant and variable capital to reinitiate production is simultaneously money capital for the realization of commodities. The advance of capital for the reinitiation of production is the impetus to realization, since capital advanced for the means of production realizes Department I commodities (means of production) in sales between capitalists, and capital advanced as variable capital leads to the realization of Department II commodities through workers' expenditure. If accumulation is proceeding smoothly, surplus value is realized through the advance of both categories of capital, constant and variable, by virtue of these advances increasing in each circuit. Given the mass of value produced, a rise its wages affects neither the value to be realized (by assumption), *nor* the money available to realize it. The only consequence is that the amount of money exchanged for commodities is exchanged against less surplus value and more variable capital. There is a shift in the value categories within the total value (constant capital, variable capital, and surplus value), but no change in the money necessary for their realization. We have sought to avoid long quotations from Marx in the text of this paper, but here it is difficult to improve on the clarity of his argument:

Let us consider particularly *the case in which there is a general rise in wages*, so that, under assumptions made, *there will be a general fall its the rate of surplus value*, but besides this, also according to our assumptions, there will be no change in the value of the circulating mass of commodities.[41]

This is precisely Itoh's case, and Marx proceeds:

velocity of circulation, hence the number of repetitions of the same function as means of purchase and means of payment by the same pieces of money in a given term, the mass of simultaneous purchases and sales, as payments, the sum of the prices of circulating commodities, and finally the balances of payments to be settled in the same period, *determine in either case the mass of circulating money . . .*" (*Capital*, III, p. 445, emphasis added). And even more explicitly: "Prices are thus high or low not because more or less money is in circulation, but there is more or less money in circulation because prices are high or low. This is one of the principal economic laws. . . ." (Karl Marx, *A Contribution to the Critique of Political Economy* [Moscow, 1970]. pp. 105–106.)

41 *Capital*, II, p. 343.

In this case there naturally is an increase in the money-capital which must be advanced as variable capital, hence in the amount of money which performs this function. But the surplus value, and therefore also the amount of money required for its realization, decreases by exactly the same amount by which the amount of money required for the function of variable capital increases. The amount of money required for the realization of the commodity-value is not affected thereby, any more than this commodity-value itself.[42]

Thus, Itoh's basic mistake is that he fails to see that the *entire* value of commodities circulates as capital, not merely the constant and variable capital advanced. As a consequence, a rise in wages does not represent an increase in the requirement of money for the circulation of capital, but only a shift in the relative weights of the component parts of total value. There is a kernel of truth in Itoh's crisis mechanism, in that crises always *appear* as credit crises, but this has nothing to do with rising wages, or even the demand for money as a means of the circulation of commodities.[43]

### E. The Role of Wages in the Accumulation Process[44]

To this point, we have used the analysis of the accumulation process to carry out a largely negative task — to show that in every important aspect of its treatment of wages and accumulation, the profit-squeeze hypothesis is wrong. On the basis of our analysis of accumulation we can now consider the actual role of rising wages during accumulation. The profit-squeeze hypothesis not only incorrectly analyzes the relationship between wages and accumulation, but directs attention away from the correct relationship. From the profit-squeeze hypothesis, one would believe that rising wages represent an unqualified problem for, and eventually a barrier to, accumulation. In reality, the opposite is

42 *Ibid.* Discussing the determination of the interest rate, Marx writes: "The rising demand for labor-power can never by itself be a cause for a rising rate of interest, in so far as the latter is determined by the rate of profit" (*Capital,* I, p. 515).

43 "In a system of production, where the entire continuity of the reproduction process rests upon credit, a crisis must obviously occur — a tremendous rush for means of payment — when credit suddenly ceases and only cash payments have validity. At first glance, therefore, the whole crisis seems to be merely a credit and money crisis" (*Capital,* III, p. 490).

44 This section is based on ideas stimulated by Ben Fine of Birkbeck College.

the case: sustained accumulation would be *impossible* without rising wages. In saying this, we are not referring to the naive underconsumptionist view that realization requires rising wages to ensure sufficient "demand," but to the processes of centralization and movement of capital between branches of industry.

As argued above, accumulation is a process of qualitative change, in which the means of production are revolutionized and capital is redistributed. In the earliest moments of the expansionary process, individual capitals cannot attract labor-power at more or less constant wages, because of the size of the reserve army. But as the reserve arms contracts, rising wages become the mechanism by which the existing labor-power is redistributed (centralized) toward more efficient capitals. In a capitalist economy, based as it is on free wage labor, rising wages are the only mechanism available to capital to make the division of society's labor-power among branches of industry conform to the changing pattern of production within and between branches of industry. To effect this redistribution, rising wages must accompany the rapid expansion of capital. This reflects the unique role of the means of subsistence under capitalism. Under feudalism, the subsistence needs of the masses are merely the means by which labor-power is reproduced. Under capitalism, subsistence needs take the wage form and serve not only to reproduce labor-power, but also to regulate its social division.

Thus, it is incorrect to see all wage increases as a result of the distributional struggle between capital and labor, as the profit-squeeze hypothesis does. This treats capitalism as if it were feudalism, where the means of subsistence have no allocative function. In capitalism, rising wages during accumulation primarily reflect the distributional struggle *among* capitals — i.e., the struggle to redistribute *capital.* This struggle has two aspects. One is the redistribution among branches of industry, as capital flows to branches where the rate of profit is higher, which affects the social division of labor. The second aspect is the removal of labor from low-wage capitals, or centralization proper. Both of these processes would be impossible within capitalist relations were wages somehow prevented from rising. Were wages successfully controlled, capital would have to turn to pre-capitalist methods of labor control, such as in South Africa, in order to achieve the necessary redistribution of labor-power during accumulation.

Perhaps the superficiality of the profit-squeeze hypothesis is nowhere more striking than in its failure to consider the role of wages in the social division of labor. It considers the *appearance* of things — a rise in the general wage level — and never considers the disaggregated movement of wages by branch of industry which makes up this general wage increase.

## *IV. Summary*

Overall, we can summarize as follows: in general the accumulation process need not so reduce the reserve army that an acute shortage of labor results; when the reserve army does decline and "real wages" rise as a consequence, this need not imply that surplus value per worker declines; should this be the case, a slow-down in accumulation, and not a crisis, is sufficient to correct the problem for capital; and, finally, the accumulation process, far from being checked by rising real wages, requires them as the necessary condition for the social redivision of labor and the process of centralization. When inspected under the microscope of Marxian theory, the profit-squeeze hypothesis is found to be without substance.

Thus, the profit-squeeze hypothesis is a "step forward" analytically as Wright and Bell suggest, to the extent that one thinks the analysis of capitalism is advanced by treating it purely quantitatively. While it is a somewhat idle exercise to make judgments as to which errors are better or worse, certainly the more sophisticated brands of underconsumptionism must receive better marks than the profit-squeeze hypothesis.[45]

Capitalism is a mode of production in which the reproduction of class relations involves a dynamic process of qualitative changes. These qualitative changes are not an aspect of the accumulation process, but the component parts of it. Centralization, concentration, the development of the productive forces, and uneven development — the manifestation of these in the

45 Luxemburg, for example, and for all her mistakes, incorporates the development of the productive forces as central to her theory, and there is no doubt that she is dealing with capitalism. Rosa Luxemburg, *The Accumulation of Capital* (New York, 1968).

competitive struggle — are the essence of accumulation. To reduce the dynamism of accumulation to the question of a wage-profit trade-off is to relegate Marx to the status of a "minor post-Ricardian," to use Samuelson's phrase. Such an analytical reduction may appear "to get to the heart of the matter — class struggle." In fact, it does not, but rather leads one away from precisely those aspects of the class struggle which uniquely characterize capitalism. We find the conflict over the distribution of the social product throughout the history of class struggle, long before the emergence of capitalism. The understanding of capitalism, and the class struggle within it, is moved back by failing to see that under the rule of capital, this distributional struggle is mediated and qualitatively transformed by the *value form*, and, in particular, the *wage form*. We have not here developed a crisis theory, but have sought to demonstrate the specific inadequacies of a particular school of crisis theory. An adequate crisis theory must incorporate in its analysis the qualitative changes we have considered, as is done in Volume III of *Capital* (particularly Chapters XIII–XV). Economic crises are unquestionably the most complex moments in the life-cycle of capitalism, moments during which the contradictions inherent in the value form manifest themselves starkly. To understand crises, analytical simplification is required; but this should not be bought at the price of treating accumulation as something which it is not.

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