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Between Schumpeter and Keynes: The Heterodoxy of Paul Marlor Sweezy and the Orthodoxy of Paul Mattick

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The Sweezy-Schumpeter debate

Paul Sweezy was an assistant of Schumpeter. Their friendship and intellectual distance are such that the word pupil sounds off-key. As he wrote to his brother Al, though interested in the Austrian economist's theories, he did not feel any particular influence. The personal relationship, however, was quite strong, as if he was the substitute for a missing child. There was a memorable debate between them, of which a record remains, thanks to Paul Samuelson's 'memoir', which appeared in *Newsweek*, 13 April 1970, and the materials made available by John Bellamy Foster in the *Monthly Review*, May 2011.

Winter 1946-47. Boston's Socialist Party had asked Harvard's Economics Department to host a debate on capitalism and socialism. Schumpeter regarded it as inappropriate that the discussion would take place in the context of his course, suggesting unsuccessfully that the Graduate Student Club would take the initiative. The debate had no sponsors, its protagonists being indeed Schumpeter and Sweezy. Samuelson's report, more than twenty years later, still conveys the excitement for the event:

> Schumpeter was a scion of the aristocracy of Franz Josef's Austria. It was Schumpeter who had confessed to three wishes in life: to be the greatest lover in Vienna, the best horseman in Europe, and the greatest economist in the world. "But unfortunately," as he used to say modestly, "the seat I inherited was never of the topmost caliber." [...] Opposed to the foxy Merlin was young Sir Galahad. Son of an executive of J.P. Morgan's bank, Paul Sweezy was the best that Exeter and Harvard can produce and had early established himself as among the most promising economists of his generation. But tiring of the conventional wisdom of his age, and spurred on by the events of the Great Depression, Sweezy became one of America's few Marxists. (As he used to say, you could count the noses of U.S. academic economists who were Marxists on the thumbs of your two hands: the late Paul Baran of Stanford; and, in an occasional summer school of unwonted tolerance, Paul Sweezy.) Unfairly, the gods had given Paul Sweezy, along with a brilliant mind, a beautiful face and wit. [...] If lightning had struck him that night, people would truly have said that he had incurred the envy of the gods.[1]

After introducing the participants, Samuelson proceeds with synthesising the 'match' by means of the words he attributes to the moderator, Wassili Leontief. The patient is capitalism. Both speakers regarded it as dying, yet their diagnoses differed. Sweezy thought the case was of an incurable cancer. Schumpeter (whose sympathies went to the system defunct in 1914) attributed the forthcoming decease to a psychosomatic ailment, a neurotic hate of itself, that made it lose love for life. Sweezy himself would be talisman and prophetic sign of this. The unanimous evaluation was that the Austrian economist had lost the match. Reluctant, as usual, to present his vision and analysis, he had engaged in an apology of the United States, probably for his typical love of provocation.

Bellamy Foster[2] supposes that Schumpeter built on Chapter 28 of the second edition of *Capitalism, Socialism, Democracy,* not yet published, where he criticised the 'stagnationist' theses that some authors (most notably Alvin Hansen) had drawn from Keynes. Bellamy

Foster has also published Sweezy's notes. The *primum movens* was not innovation but accumulation: a process that does not tend to balance itself. The imbalance between investments and savings systematically reproduces itself, because there is no way to adapt investment to the needs of accumulation, or to ensure that, in case of inadequate investments, capitalists would effectuate compensative consumptions. Thus, it is not true that 'trustified' capitalism is able to generate more stability and mitigate the crisis (as Hilferding claimed about 'organized capitalism'). The reasons of capitalism's tendency to crisis are not sociological or psychological: they are economic, though it makes no sense to attribute the cycle to a single, uniform cause.

On the other hand, Schumpeter's shadow seems to cast over Sweezy's words, in *Why Stagnation* (1982), despite his claim about the renewed relevance of the tendency to stagnation:

> Does this mean that I am arguing or implying that stagnation has become a permanent state of affairs? Not at all. Some people—I think it would be fair to include Hansen in this category—thought that the stagnation of the 1930s was here to stay and that it could be overcome only by basic changes in the structure of the advanced capitalist economies. But, as experience demonstrated, they were wrong, and a similar argument today could also prove wrong.[3]

Actually, in his 'challenge' with Schumpeter the US-American Marxist had begun by declaring to agree with his antagonist's statement, in *Theory of Economic Development*, according to which capitalism is by nature a form or method of economic change and not only it never is, but it never can be, stationary.

Biography

Sweezy was born in New York in 1910, a descendant of the US upper class, the son of a vice-president of the First National Bank. His first writings appeared in the *American Economic Review*, the most prestigious economic journal, before completing his first cycle of university studies. He attended the Philips Exeter Academy and Harvard University, where he graduated in 1931. In 1932-33 he shifted to the London School of Economics, where he was influenced by Laski's thought and came in contact with Marxism. Back in Harvard for his doctorate in 1939, he became Schumpeter's assistant, taking care of students and organizing a series of seminars. Of particular importance was one involving a very small group, composed of just 4-5 people: among these there was Elizabeth Boody, historian of economics and future wife of the Austrian economist, and Samuelson, future Nobel Prize for economics. A pupil of Sweezy was another Nobel Prize, Robert Solow, who attended his course on socialism's economics. In a beautiful interview with Savran and Tonak,[4] Sweezy recalls how at that time Solow was one of the most radically leftist young economists (one could not say the same about Samuelson, he remarks). Once he got a tenure, Sweezy adds, Solow's radicalism faded considerably. Sweezy does not lean towards a 'moralistic' judgement. Referring to Solow, but also to Eric Roll, he would say:

> It's a kind of opportunism in a way, and yet in these cases it wasn't crass or vicious. It was the kind of thing that the pressures of U.S. society make it extraordinarily difficult for a person to resist, especially if he doesn't have some independent means. You have to understand that I probably would have gone that way, too. I was fortunate in not having to depend on an academic salary.

The interpretation of the title of the seminar he gave on *The Economics of Socialism* was quite 'broad', since Sweezy probed the terrain of a reconstruction of the various theoretical traditions of socialism, well beyond Marxism in a strict sense. In that course, however, Sweezy tried also to develop an academic and rigorous treatment of Marxism; to this purpose, he built considerably on the European literature, including German, which he knew in the original. In this way Sweezy gradually crafted one of his most famous works, the true classic that still is *The Theory of Capitalist Development*, the first edition of which was published in 1942, the same year of Schumpeter's *Capitalism, Socialism, Democracy* (his first work was *The Theory of Economic Development,* of 1911).

It is in these years that Sweezy becomes a self-taught Marxist.One cannot say it was a wise choice from an academic viewpoint. His writings of standard economic theory were accepted by the best journals. After the article for the *American Economic Review* of December 1930 ("The Thinness of the Stock Market"), he had published in the *Quarterly Journal of Economics*, in 1937 ("On the definition of Monopoly"), and the *Journal of Political Economy* ("Demand under Conditions of Oligopoly"), in 1939. The last article was quickly included in textbooks, and it is still cited today – the (rare) students with some acquaintance with Marxism very often do not suspect it is the same person. His interest in imperfect competition is testified also by his first book of 1938, (his doctoral thesis), devoted to coal trade in England (*Monopoly and Competition in the English Coal Trade*), published by Harvard University Press.

In these years Sweezy is influenced by Keynesianism and by the debate over the presence or absence of a 'stagnation' tendency. In 1936 the *General Theory* had appeared, while the USA since 1929 was in what John Kenneth Galbraith appropriately defined *The Great Crash*. In 1932 a quarter of the population was unemployed. The upturn of the mid Thirties stimulated by the *New Deal* was complemented by a lively season of 'grassroots' struggles. However, there was a serious fall back to crisis in 1937-38, when Roosevelt, afraid of the government deficit, pulled the brake. The real exit from the crisis was with World War II. Sweezy was active in those years in some agencies of the *New Deal*, and participated in drawing an important report of 1938, *The Structure of the American Economy*, which made a case for a 'Keynesian' exit from the crisis. Meanwhile he worked in the analysis and research division of the Office of Strategic Services, the future Central Intelligence Agency, editing the *European Political Report*.

With his publications, and not only because of his close intellectual dialogue and friendship with Schumpeter, Sweezy was on the way to a successful academic career. In 1942, while under a five year contract, he leaves Harvard for a couple of years, for a research journey. While he is abroad, the opportunity arises for tenure at Harvard. Schumpeter strongly supports Sweezy. Yet, Harvard's department does not want him. Sweezy refers to the rumours of his 'firing' from Harvard, yet he dismisses them for he could theoretically stay at Harvard for two more years. However, he received a clear message that nobody wanted a Marxist as a permanent member of the staff, so after these two years he would have to move. He decided he would not remain 'halfway across a ford'.

In 1953, in the midst of McCarthy's communist witch-hunt, Sweezy is summoned and interrogated in a legal action started by the state of New Hampshire. He refuses to answer the questions, is sentenced, and appeals to the Supreme Court, which in 1957 finds in his favour. The verdict is a turning point, and foreshadows the end of the witch-hunt. At the beginning of the Sixties Sweezy, with Paul Baran, writes *Monopoly Capital*, published in 1966 and translated into Italian by Einaudi. While the *Theory of Capitalist Development* was an introduction to Marxism in its various aspects – from the theory of value to the theory of crisis, to the last part devoted to the theory of imperialism – *Monopoly Capital* deals with the passage from the competition phase of capitalism at Marx's time to the phase of contemporary competition between oligopolies. It is an essay deliberately written in the language of traditional economics, of a Keynesian-institutional type, sometimes even with neoclassical accents.

In 1949 Sweezy had founded, with Leo Huberman, the *Monthly Review*. The journal had an Italian edition between 1968 and 1987, thanks to the initiative of Enzo Modugno, who often wrote an editorial (later Lisa Foa and Luciano Canfora were involved); and initially it was distributed to kiosks, selling up to 20,000 copies. The first issue opened with a famous article: *Why Socialism?* by Albert Einstein. Sweezy and his collaborators at the *Monthly Review* would get involved with several revolutionary experiences: from Mao to Cuba (on which he published two books with Leo Huberman: in 1960, *Cuba: Anatomy of a Revolution*, and in 1969 *Socialism in Cuba*). The Seventies and Eighties are punctuated with many articles in which Sweezy, alone or with others (in primis Harry Magdoff), proposes an interpretation of capitalism's crisis, drawing it to the crisis of realization. Yet Sweezy proceeds further and, already in the Seventies, formulates an analysis of the growing financialization of capitalism. Finance 'counts', both in its contradictory aspect and for its functionality to capital accumulation. On these topics particularly important are the collections of articles from the *Monthly Review*, some of them translated into Italian by Editori Riuniti, such as *The Dynamics of*

U.S. Capitalism (1970) and *The End of Prosperity* (1977), some others not, such as *Stagnation and Financial Explosion* (1987) and *The Irreversible Crisis* (1988).

In these years Sweezy participates in many other debates. On post-revolutionary economies and societies he polemicizes with Charles Bettelheim (*On the Transition to Socialism*). Sweezy had always been critical towards the idea of USSR socialism as the incarnation of socialism. However, he did not subscribe to the thesis, of Trotksyist inspiration, for which the Soviet Union would be a 'degenerated workers' state', nor to the interpretation of Maoist ascendance for which the Soviet Union would have remained a capitalist economy. If it is true that capitalist elements persist, one has to deal in any case with economies and societies no longer capitalist, but post-revolutionary and post-capitalist.

Sweezy's contribution was also significant to two other debates. The first took place in the Fifties, originating from the publication of Maurice Dobb's *Studies in the Development of Capitalism*. Sweezy stressed the role of market and trade in the transition from feudalism to capitalism, distancing himself from a reading more focused on the sphere of production. The second, concerning the individuation of possible subjects of a revolutionary change, took place in the Sixties and Seventies. Sweezy stressed the tendential integration of the working class in advanced countries, and put his hopes in a revolutionary change at the 'periphery' and in the struggles for national liberation.

In the following discussion – also for its implications for the reading of contemporary capitalism and its crisis – I will basically focus on Sweezy's interpretation of the Marxian theory of value and crisis, on some aspects of his theory of monopoly capitalism, and on his reading of financialization. In the concluding part I will address the reflections of an author far removed from the theses of the *Monthly Review*, who is yet significant to a full understanding of the limits of Keynesian economics and of capitalism's tendency to crisis: Paul Mattick.

The Theory of Value

In his book of 1942 Sweezy reverts to Franz Petry's distinction between the qualitative and the quantitative aspect in the labour theory of value. The qualitative aspect refers to the thesis that values would be crystallisations of labour, whatever the 'exchange values' (that is, the relations of exchange proportional to the amount of labour directly and indirectly contained in commodities). The quantitative aspect has to do with the 'transformation' of exchange values into a second, further system of exchange ratios, the 'prices of production'. Subsequent debate has clarified that Sweezy (like Dobb and Meek) accept a definition of the 'abstraction' of labour reduced to a mental generalization. The Marxian argument about the exchange ratios is reread by attributing it to the sole situation of equilibrium. The argument develops according to two subsequent approximations, of which exchange values would constitute the first, prices of production the second.

Sweezy was first to promote in the academic discussion (and beyond) the line which, from Bortkiewicz to Seton, has tried to 'correct' Marx's transformation, in line with simultaneism. The point is that at the end of such road there seems to be precisely the inessentiality of exchange values in the determination of production prices. Sraffa can be understood as an implicit, yet definitive, critique of such an approach. In *Production of Commodities by Means of Commodities* the dualistic determination of equilibrium exchange relations actually falls through. In a first model, capitalist prices are immediately fixed once given the 'productive configuration' – what Sraffa defines in his book as "the methods of production and productive consumption" - and the real wage at the 'subsistence' level. In a second model a degree of freedom in distribution is admitted, and prices are determined once the conflictual distribution of the net product between profit and wage is defined through the fixation of one of the two distributive variables. It has been argued that the consequence seems to be the collapse of the quantitative aspect of the labour theory of value, which would drag with it the qualitative aspect. The problem is that in this way also the thesis collapses that the genesis of surplus value would have to be traced back to surplus labour: a conclusion that can be justified only on the basis of the possibility to establish a comparison between the quantity of labour objectified by workers in the commodities produced and the quantity of labour that comes back to them as the labour necessary to produce the wage goods. This comparison strictly depends on the soundness of the argument according to which value (and hence price) exhibits nothing else but labour.

However, one has to say that Sweezy, at the end of the Seventies, distanced himself from 'traditional' Marxism, with which he had been (with some reason) identified. His own route – he claims – is to be understood as alternative to both the vision of Dobb (the author who had best defined a reading of Marx in terms of two stages of approximation in the determination of the equilibrium prices, and who on such ground had suggested a continuity between Sraffa and the author of *Capital*) and the vision of Steedman (who in his *Marx after Sraffa* had rung the death knell for the labour theory of value, highlighting a deep divide between the two authors on the terrain of the theory of prices). In a letter to Michael Lebowitz of 30 December 1973, Sweezy evaluates Dobb's position as follows:

> The trouble with them is - and the point of view from which we should (sympathetically) criticize them - that in this day and age it makes no sense to dream of an effective critique of capitalism which is not Marxist. Those, like Dobb for example, who imagine that Sraffism is really a sort of variant of Marxism are on the wrong track. Our job is (1) to try to steer them onto the right track, and {2) to keep the young from following them on to the wrong one. In other words effectively to establish Marxism as what it is, *the* definitive (although of course not in the sense of being incapable of indefinite further development) critique of capitalism with its necessary link to a revolutionary political position.[5]

In the already quoted interview Sweezy expands these considerations in this way:

> Well, let me say first – and I think it's very important to understand this – that Sraffa himself did not see what he was doing as an

> alternative to Marxism, or in any way a negation of Marxism. From his point of view, this was a critique of neoclassical orthodoxy. And he made that very clear. Joan Robinson was very explicit, saying that Sraffa never abandoned Marxism. He always was a loyal Marxist, in the sense of himself adhering to the labor theory of value. But he didn't write about that. Now that was Sraffa's peculiarity. He started as a critic of Marshallian economics. You remember his famous article in the 1920s. He was in the Cambridge group. He fought these ideological struggles which had their center in Cambridge. He took a certain side in them, but he didn't take it as a Marxist, but he took it as a critic of the orthodoxy of the time. Now that's a peculiar position, but it doesn't entitle anybody to take Sraffa and counterpose him to Marxism, as Ian Steedman does. To make out of Sraffa a whole alternative theory, in my opinion, is quite wrong and has nothing whatever to do with the real intentions of Sraffa, or certainly nothing to do with the real purposes of Marxist analysis. There is no dynamic, no development in Steedman that I can see. Thinking that it is possible to get along without a value theory (using the term in a broad sense to include accumulation theory and so on) seems to me to be almost total bankruptcy. It's no good at all. And I don't think anything has come of it. It was good to show the limitations, the fallacies, the internal inconsistencies of neoclassical theory, that was fine, that was important. But to think that on that basis a theory with anything like the scope and purposes of Marxism can be developed is quite wrong.

A 'broad' vision of the theory of value – one which includes not only the theory of accumulation but also the theory of crisis – is crucial to understanding the route and the relevance of Sweezy, also today. One has to say also that his reading of Sraffa's intentions is today confirmed, far beyond what Sweezy himself could imagine, by the Italian economist's papers, conserved at the Wren Library of Cambridge. What is sure is that Sweezy's own public standpoint about neo-Ricardianism was of harsh criticism and opposition when this strand criticized the labour theory of value.

This is testified by Sweezy's speech in London, November 1978, at a round table (which the author of this article attended), concerning Steedman's book: the text was subsequently published in the miscellaneous *The Value Controversy*. The crucial point is not so much that Sweezy radically contested the idea that there would be no 'bridge' between the (essential) dimension of value and the (phenomenal) dimension of price. Nor is the point his argument that analysis in terms of value is not disconfirmed by analysis in terms of price. Novelty lies in Sweezy's self-criticism. If it is possible to analyse the phenomenal reality exclusively in terms of price, he asks, why be concerned with values as 'essences'? It is indeed false, he claims, that it is possible to analyse capitalist reality exclusively in terms of prices; rather it is true that, once an analysis in terms of value has been developed, it is possible to get the same results through an analysis in terms of prices. The reason lies in that the centre of gravity of Marx's analysis is the rate of surplus value. This is a point that he had not understood while writing *The Theory of Capitalist Development*: for this reason, he now argued, the fifth and sixth sections of the chapter on the problem of transformation, though not wrong in themselves, do not get to the heart of the issue, that is, the key role of the rate of surplus value of the Marxian theory of capitalism.

The Theory of Crisis

At this point it is useful to proceed with an analysis of the reading Sweezy gives in 1942 of the theory of crisis. In the *Theory of Capitalist Development* there are some useful distinctions which have been relevant to subsequent debates, between the crisis due to the tendency of the rate of profit to fall, the crisis induced by inter-sectoral disproportionalities, and the crisis due to underconsumption.

As regards the tendency of the rate of profit to fall, Marx's argument is that the change in the methods of production would lead to an increase in the organic composition of capital whose percentage exceeds the increase in the rate of surplus value. The increase in the ratio between constant and variable capital has a negative influence on rate of profit, while conversely the increase in the ratio between surplus value and variable capital, which also stems from technical progress, produces a positive effect on the rate of profit. According to Marx, the first effect is stronger than the second, hence the rate of profit cannot but decrease over time. Sweezy, like Joan Robinson, is sceptical, since he thinks that countertendencies, and namely the increase in the rate of surplus value, more than compensate for the increase in the composition of capital.

As regards the crisis of realization, Sweezy reads it by building on the Kautzky of 1905. Profit is mainly invested, wage is integrally consumed. The increasingly unequal nature of distribution entails that the share of consumption becomes increasingly lower, in relation to the value produced. The 'realization' of surplus value requires increasingly larger shares of investment demand. As for the crisis of disproportions, this is easily deducible from the 'reproduction schemes' of the second book of *Capital*. Both the composition of supply and the composition of demand are linked to quantitative relations established in the various sectors of production. The supply structure of different industries depends on the level achieved by productive sectors in the total capital; whereas the structure of demand depends on the allocation of constant and variable capital within industries. The conditions of equilibrium, that is, the ratios ensuring compatibility between the composition of supply and the composition of demand at the systemic level are derived from the 'reproduction schemes'. The actual occurrence of such conditions depends on how the mechanism of price competition works, that is on market ex-post coordination.

As Claudio Napoleoni did in his important *Introduction* to the (partial) reprint in 1970 of the Italian translation of Sweezy's book, one can contest that Sweezy separates too rigidly the 'crisis of disproportions' from 'crisis of underconsumption', with the result that these become two distinct causes of crisis. In the first case, the crisis of realization would derive from the generalization of sectoral imbalances due to the enactment of a chain reaction of a de-multiplying type. In the other case, one would immediately have a classic crisis for lack of effective demand. According to Napoleoni, conversely, one has to deal with two concurrent causes of crisis. The basic element lies in the inability of the price system to make compatible the choices of each enterprise in a condition of 'anarchic' market. If, as it inevitably happens sooner or later, the lucky 'case' of the equilibrium conditions specified by the schemes would not concretize, price movements on the market would have to be summoned to help, orienting enterprise investment. On the other hand, given the radical and constitutive insufficiency of ex-post coordination through prices, such orientation can work only if the share of workers' consumption does not decrease too much. In this sense, then, underconsumption and disproportions would be like the two blades of scissors. Underconsumption can determine the crisis for the limits of market ex-post coordination through prices, while the anarchy of competition is a factor of crisis if consumption does not orient investment closely. One aspect refers to the other, and the two complement each other.

A reading of the capitalist crisis as induced by insufficiency of effective demand, due to an excessive increase in the rate of surplus value – excessive in that it determines a tendency to stagnation for lack of outlets – is one of the essential components which underpins Sweezy's reading of the Great Stagflation, the crisis of the Seventies, and subsequent developments. Here we are also clearly close to the themes that Baran and Sweezy address, with different language and categories, in *Monopoly Capital*.

Retrospectively, a limit of the 1942 book is that it neglects an analysis of the transformations and conflicts in labour's capitalist processes. However, it is from within the group of the *Monthly Review* that Harry Braverman writes (and publishes in 1974) the book on the 'degradation of work' in Taylorism and Fordism, just when Sweezy and Baran are publishing their studies on monopoly capital. *Labor and Monopoly Capital* is, after over a century, the first book that goes back to themes running through the first book of *Capital*. A quite evident quality of Sweezy is that he never works alone, he always counts on 'allies' who complement his research. Braverman meant also a relationship with workers, with the world of work – in the above mentioned interview Sweezy maintains that it is a pity that Braverman died so early, since he embodied a stable contact and dialogue with work and union experiences.

Monopoly Capital

According to Baran and Sweezy, monopoly capital intensifies the difficulties that capital meets on the terrain of surplus value realization. This has nothing to do with an alleged superiority of free competition capitalism over monopoly capitalism as a growth 'machine'. Sweezy is too good an acquaintance, and friend, of Schumpeter to get wrapped up in such a naïve vision of stagnation. His goal, with Baran, is rather the opposite. First, to show how the potentials for growth are incredibly developed by the monopoly transformation of capitalism. Second, to show how this worsens the problems that capital faces on the terrain of effective demand, that is, the difficulty to find adequate outlets allowing a sale of commodities at prices sufficient to cover costs and profits: to show, therefore, how a tendency to stagnation arises and worsens. Third, to clarify how this tendency, rather than immediately coming true, has been effectively, though perversely, counteracted by the concrete evolution of capitalism itself, without removing the drift toward an immanent crisis which would reveal the irrationality and waste typical of monopoly capitalism, yet only postponing it temporarily. The linchpin of this theoretical and interpretative construction is the replacement of the Marxian tendency of the rate of profit to fall with a tendency of the surplus to rise.

What 'monopoly capital' is can be said easily: it is the phase of capitalist development in which those enterprises dominate which, given their dimensions, can determine the prices of what they sell and of what they buy. A phase beginning at the end of the Nineteenth century due to phenomena of concentration, fusion and incorporation, engendered by the very dynamic of 'free' competition (a competition building essentially on price reduction), and which results in making the degree of monopoly and the struggle for 'quality' crucial to the analysis of the mechanism of development. This does not mean a disappearance of competition as such, given that competition is implicit in the privatistic nature of capital. We are rather faced with a change in the form of competition, not with a tendency of capital to self-planning. It is a competition consisting in a decrease in unitary costs thanks to technical and organizational progress, that is to advertising and to all those instruments through which the entry into the market of other enterprises can be contrasted or consumption can be oriented towards certain directions rather than others.

This position is situated at a distance from those analyses of 'managerial capitalism' à la Berle and Means, grounded in a separation between property and the economic management of firms. According to Berle and Means, the monopoly firm would by now be directed by managers independent of owners (both major and minor shareholders) and would be no longer aimed at profit maximization but rather at cost minimisation, an increase in market share, quality products improvement and the growth of the firm. Baran and Sweezy object that managers belong to the upper social stratum of owners, for this reason there being no divorce between ownership and control. Rather, a differentiation has occurred within property. As such, pure enterprise shareholder ownership, though quantitatively diffused, qualitatively counts for little. Within ownership we may distinguish a section of 'active' capitalists à la Marx, who play a function of control. Once this point is established the authors deduce that, whatever the specific purposes that the managers seek to fulfil in managing the capitals they can control, such specific purposes are all comprised in a fundamental goal, which remains the maximization of profits. Profit maximization can however be pursued in a more extended time span than in free competition capitalism. Conflict can also arise over the dividend policy, yet always within the boundaries of that dominant goal.

A re-reading of the 1966 book should integrate its theses with the elaborations of Sylos Labini and Kalecki – this is a point correctly stressed by Joseph Halevi in a debate on Sweezy I organised in the University of Bergamo and published by *l'Ospite ingrato*. In *Oligopoly and Technical Progress* Sylos Labini withdraws the static vision of oligopoly into which Baran and Sweezy's book is still to some extent locked, and proposes a dynamic vision that can be connected with the problem of realization in Marx and the principle of effective demand in Keynes. The authors of *Monopoly Capital* became aware of this, and actually expressed their strong appreciation for the Italian economist's contribution once they got acquainted with it. As for Kalecki, crucial is his argument that profits are determined by expenditure.

However, I would not stretch this argument, as Kaleckians do, up to building the myth that a 'wage-led' capitalism is possible as a way out of the crisis. The expenditure that counts, the demand that drives, in capitalism, is the autonomous one: of capitalists themselves (for investment or luxury consumption), or the net export, or else the 'domestic export' (this is how Kalecki labelled money-financed deficit public spending). It is true that a fairer distribution of income, since it increases wages, increases in a Marxian way the sales of the sector that produces consumption goods, and in a Keynesian way it increases the 'multiplier' of autonomous demand. As a consequence, income rises, and therefore there is also an increase in consumption demand: afterwards, investment itself (given the more intense use of productive capacities) is pushed upwards, something which gives way to a sort of 'accelerator' in a 'virtuous' circle. It is however impossible to find here the engine, the decisive push driving a long wave of capitalist development: we have only the explanation of particular upward moments of an already going capitalist phase, very often only on a 'local' basis, as a national experience. A wage-led accumulation is an illusion in which, it seems to me, Baran and Sweezy never believed. It is not just a question of a 'political' obstacle: it has to do with the 'capital relation', with the capitalist nature of the social relations of production.

One has to add a word of caution, which points to an open question. We have said that firms' investment strategy depends also on the degree of unused production capacity, which in its turn depends on effective demand. It is however increasingly the case in contemporary capitalism that the same investment strategies of global players tend deliberately to engender the rise of unused production capacity, as a form of 'destructive competition' against other firms. It is also useful to hint at a significant aspect of Baran and Sweezy's analysis, their vision of imperialism (later developed by Harry Magdoff). For the *Monthly Review* imperialism has not so much to do, as with Luxemburg, with the chase for new markets (which Twentieth-century core capitalism has anyway been able to get within itself); nor, as with Lenin, with excess capitals that are exported and which, as a consequence, engender outlets for commodity exports (here it must be said that Twentieth-century core capitalism has absorbed more capitals than those flowed away). For our authors, imperialism has rather to do with multinationals' defence of their own share of the market, and with the interests of the industrial-military bloc.

Monopoly Capital and the Labour Theory of Value

Monopoly Capital was quite contested by orthodox Marxists. At the heart of such criticisms was the thesis that, since in the capitalism of oligopoly competition oligopolies have market power over prices, this would entail a tendency of the surplus to increase. The point was read by most as a rejection of the Marxian theory of value and crisis. There was, so to say, circumstantial evidence confirming this. For a start, the book's style, which deliberately steered clear from the use of categories too explicitly linked to Marxism, and which, to be read by a new generation, was conversely building on a Keynesian or even Neoclassical language. It was furthermore clear that the authors preferred the concept of 'surplus' as characterized by Baran in his *The Political Economy of Growth* – that is, as the difference between total social production and the social costs needed to get it: the latter being defined so as to exclude the labour that would not have taken place in a non-capitalist rational social order – to the Marxian category of surplus value:

> It is true that Marx demonstrates [...] 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 a change in terminology will help to effect the needed shift in theoretical position.[6]

Surely a role was played also by the willingness to distance themselves in the neatest possible way, from the tendency of the rate of profit to fall stemming from an increase in the organic composition of capital, in favour of a determination of surplus value on the demand side in the new conditions of a capitalism no longer of free competition. Yet, such an increasingly 'organized' capitalism is unable to free itself from the tendency to crisis, which if anything is emphasised; in this way going in an opposite direction to Hilferding's argument.

Also in this case, twenty years later, in the cited interview Sweezy comes back to the question with self-critical tones, and observes: *Maybe it was an error*. He and Baran had planned a further couple of chapters to explain the relationship between their conceptual framework and the Marxian theory of value. In the introduction to the Greek edition's reprint he complains about the miscomprehensions of their intentions, clarifying that what had been taken as an obvious fact, that is, their farewell to Marx's theory of value and surplus value, was totally false. He and Baran meant to start from that theory to proceed further: it was a mistake having left this unclarified. They should have begun with an exposition of the theory of value as it is offered in the first book of *Capital*, followed firstly by the transformation of values in production prices as addressed by Marx in the third book, and secondly by the theme, which Marx had just touched, of the transformation of values, or of production prices, into monopoly prices in the monopoly phase of capitalism: "At no time did Baran and I explicitly or implicitly reject the theories of value and surplus value but sought only to analyze the modifications which become necessary as the result of the concentration and centralization of capital."[7]

The point is that, as Sweezy remarks elsewhere, this second transformation has more relevant consequences than the first one – an observation which I think alludes precisely to the law of the tendential increase of the surplus. These considerations of Sweezy have the limit of remaining largely implicit. Sometimes the two authors seem to propose a simple comparison of oligopoly capitalism with free competition capitalism, holding that the surplus in the former would be higher. Other times, more significantly, they claim that the non-competitive determination of prices allows for a higher surplus to emerge than the one deriving from the mere dynamic of the immediate process of valorisation. It is today possible to better follow the argument of the two authors, because in the July-August 2012 issue of the *Monthly Review* a text has been published that Baran and Sweezy had written on the theoretical implications of *Monopoly Capital*, preceded by a valuable comment by John Bellamy Foster. An important point is the theorization of the wage: no longer tied to the subsistence, it is (as with Sraffa) a variable magnitude, and part of the surplus is hidden within it. Monopoly capital can increase the surplus not only at the expense of competing capitals but also at the expense of the wage itself. The rate of wage that includes part of the surplus is due not so much to social conflict, but to the fact that thanks to the wage the 'unproductive' fraction of the surplus finds outlet and absorption: here there is an acquisition of use values which does not correspond to a qualitative improvement of the workers' condition. This in any case discloses the possibility to get a profit through a 'deduction' from the wage itself, slowing down the growth in the value of labour-power compared with that which would have otherwise occurred.

In this respect some considerations of Claudio Napoleoni are, once more, of great interest. In this case the reference is to some unpublished lectures of the early Seventies from his Turin courses on economic policy. Half of them were dedicated to Keynesian versus Neoclassical macroeconomics, half of them on the debate about crisis within Marxism (Baran and Sweezy as well as Mattick were on the short reading list). According to Napoleoni, the difficulty of reading *Monopoly Capital* as consistent with the Marxian theory of value and surplus value can be described as follows. In the third volume of *Capital* Marx claims that natural or artificial monopolies make possible a monopoly price higher than the price of production (and the value) of commodities. Marx however thinks that the way of determining prices cannot affect the formation of value and surplus value: it affects only the distribution of surplus value among the various capitals. Monopoly pricing simply enables to appropriate part of other enterprises' profit, instead of uniformly distributing it among all of them. The only other possibility is that the extra surplus value gained by monopoly capitals be the outcome of a redistribution from wage to profit. In other words, the market form intervenes when one has to define how surplus value is split among the many capitals or among the classes.

It is not difficult, according to Napoleoni, to reformulate Baran and Sweezy's thesis of a tendential growth of the surplus in such a way as to make it compatible with the Marxian labour theory of (surplus) value. It is true that monopoly capital cannot produce a surplus value higher than the situation of free competition, if the other factors are unchanged. There are however two processes at which the two American Marxists hint, which can be summoned to help. The first process has to do with the trend over time of the productive power of labour within monopoly capitalism. If one could hold that in the world of monopoly capital the productive power tends to increase more than it happens in free competition, for example by means of the adoption of better technology, the supposed contradiction with the Marxian theory of (surplus) value would disappear. And this not only is consistent with the two authors' rejection of any 'romantic' critique of imperfect forms of competition, for which monopoly would entail backwardness, but is consistent also with Sweezy's intellectual relation with Schumpeter, despite their reciprocal distance.

The second process has to do with the wage. Marx's case is that of the capitalists who, enjoying an oligopoly position, are able to increase the wages of their own workers transferring the higher cost of labour to their own prices. The increase in the wages of oligopoly firms' workers pushes towards an increase in the wages of the workers of other firms, which as a consequence experience a fall in their own profit. However, another mechanism can be considered. The increase in the size of the enterprise leads to a decrease in unitary costs, and enables the adoption of new technologies and new methods of work organization, which increases the productive power of labour. If at this point the real wage and the capital intensity ratio grow in the same proportion as the productive power of labour, the rate of profit does not change. The real wage can be pushed upwards by the unions' strength, up to exceeding the increase in productive power; yet in monopoly capital prices are set by firms. The possible wage increases could at this point be 'accommodated' by the monetary authority, favouring the inflationist reaction from enterprises which is allowed by the particular structure of the market, enabling these to defend, or even expand, their margins of profit.

While in a situation of free competition the real wage closely follows the movements of money wage, things are different under monopoly capital. Here the increase in the productive power of labour can go along with a growth in the money wage which however can be eroded by price inflation. The tendential increase in surplus value stemming from this can be so much more relevant as, in contemporary capitalism, wage depends on a conflict between social classes and not on a given subsistence. At this point, the problem of finding an outlet to surplus is posed in ever more serious terms. If capitalists' demand for investment and consumption is not sufficient to absorb the surplus, a demand gap opens up which, if not filled otherwise, makes only potential and not real the higher profits implied in the growth of surplus.

The difficulty of realization can be solved according to 'external' or 'internal' modalities. Limiting ourselves to recall on the first side the already mentioned Leninian and Luxemburgian strands, let us focus on the second. Among the 'internal' modalities there are the following: expenditure for advertising; formation of social strata of 'pure' unproductive consumers; expansion of public and private bureaucracies; plethoric commercial intermediation; expansion of financial-speculative bourgeoisie. From here a demand for consumption originates which, if its ultimate source is surplus value, comes directly from those social strata allied to capital, which have appropriated part of gross profit. One has also to consider a government deficit, when it gives rise to the production of use values that are not included in capital's reproduction. Military expenditure plays here a central role. As Napoleoni comments in the entry *Capitale* of the *Enciclopedia Europea Garzanti*:

> The example of these practices configures a capitalism which is externally aggressive and has significant elements of 'unproductivity' internally, where 'productivity' is determined according to capitalism's own criteria, and where, on the other hand, the term of reference is represented by the potentialities implied in monopoly capital itself, and not by the results obtained by competitive capitalism, whose dynamic was certainly less prominent. Monopoly capital, despite having substantially modified the classic cyclical trend of early capitalism, is therefore subject to a specific instability, due to the compresence of an inflationist tendency stemming from the possibility to manage prices, and of a deflationist one, deriving

from the difficulty of realization.

In the development that Napoleoni proposes of the theses of *Monopoly Capital* the point of view is integrally immanent, in contrast with the more usual interpretations of Baran and Sweezy's book. His reading of monopoly capitalism extends to an interpretation of the crisis of the Seventies, where the key variable is an increase in the relative wage (that is, the value of labour power against surplus value) as a reaction to the increase in exploitation.

According to Napoleoni, monopoly capitalism has escaped a new great crisis of realization by means of the expansion of a 'rent' area (which Baran and Sweezy would have defined 'waste') which, if it has made the amount of profit appropriated by firms lower than the potential one, has however ensured market outlets. In the new context, a higher wage, in conjunction with rent, could shrink the actual profit. If inflation as a mechanism of recovery of profit would prove to be a toothless weapon, unable to check the increase in real wages, wage as a cost would materialize as an additional cost to the extraction represented by rent: the fall of profit would be confirmed, engendering a structural crisis of the capitalist relation. If instead the weapon of inflation would prove effective, it could happen that unproductive social strata would themselves react becoming the main source of inflation, thus determining in another way the squeeze of profit and the capitalist crisis. In theory, the pressure of wage and rent could occur at a same time.

A similar reflection is not found in Baran and Sweezy, yet I think it is important to fully understand the new great capitalist crisis that brings so-called 'Fordism' to an end. In the Sixties and Seventies the *Monthly Review* group regarded the 'core' working class as integrated, and bet on the movements at the 'periphery'. Napoleoni, on the contrary, believed that at the end of the Sixties and the beginning of the Seventies an intensification of class conflict took place at the very 'core' of capitalism.

Sweezy's position at first sight could be assimilated to Kalecki's, as expressed in an article on the 'fundamental reform' of capitalism, written with Tadeusz Kowalik. Napoleoni's could instead appear in continuity with the Kalecki of 1943-44, who denied the possibility of a capitalism of full employment and high wages as a permanent situation. A similar reality would have eroded the basis of capitalist despotism in the sites of production. Kalecki's two papers appear to be in contradiction. In 1943 a Keynesian capitalism as a stable regime making full employment a permanent state is regarded as impossible. In 1970 the thesis appears to be of a by now accomplished stabilization of post-war capitalism, thanks exactly to Keynesian economic policies. Things were a bit different. In 1970 the two Polish economists maintain that a 'limited' and 'temporary' stabilization of capitalism was bound to occur, in contrast with the dramatic political and economic instability of the period between the two world wars. Nothing less, but nothing more: and also something which can be largely subscribed. Yet (as Kowalik later admits) Kalecki, as also Sweezy, underestimated the contradictions of 'core' capitalism of those years. On this Napoleoni's outlook was definitely much more lucid.

The *Monthly Review* and the years of "Financialization"

It would be a mistake to underestimate the later phase of the elaboration of Sweezy and the *Monthly Review*. As I have argued with Halevi, the group was able to perceive neatly – much more than the rest of Marxism and post-Keynesianism – one of the routes taken by the system to counter the crisis. Since the end of the Seventies, Sweezy, almost always together with Harry Magdoff, substantially enriched the theory of monopoly capitalism, grasping with remarkable timeliness the crucial role of debt and finance. From these writings – mostly articles, subsequently collected in a volume – one can effectively grasp the role, both pathologic and functional to accumulation, of such renewed 'financialization', in a dialogue at a distance with Hyman P. Minsky.

Already in the second half of the Seventies Sweezy and Magdoff stress that the explosion of debt, both public and private, introduces qualitatively novel mechanisms, signalling a discontinuity. The two authors are ready to grasp, beyond integration, the fragmentation of the working class, in ways that raise difficulties for Marxist received wisdom, and to underscore as a first necessity the struggle against these disruptive forces. In the collection of 1977 the connection which leads from monopoly capitalism to debt is clarified. The central piece in that book is entitled: *Banks: skating on thin ice***.** Though rather technical, it is far-sighted writing. The expansion of credit was not, in the first instance, due to optimistic expectations. Rather, it had become an instrument to make money, betting on the capacity to repay debts in the future in spite of the constraints over liquidity and the circumstance that the temporal horizon of investments in the stock of capital, as well as of the 'return' in term of cash flows, was longer than that of the repayment of loans. The two Marxists, in other words, identify a tendency to a 'shortening' of debt. A few years later, in the collection of 1981, they detected, in real time, the systematic increase in the ratio between household consumption and disposable income. These phenomena stemmed from – but also replied to – the stagnation tendency: hence the ratio between household consumption and disposable income went into a spiral helping to prevent a full realization of that tendency.

In the 1987 collection Magdoff and Sweezy synthesised their argument as follows:

> Among the forces counteracting the tendency to stagnation, none has been more important or less understood by economic analysts than the growth, beginning in the 1960s and rapidly gaining momentum after the severe recession of the 1970s, of the country debt structure (government, corporate, and individual) at a pace far exceeding the sluggish expansion of the 'real' economy. The result has been the emergence of an unprecedentedly huge and fragile financial superstructure subject to stresses and strains that increasingly threaten the economy as a whole.[8]

One can at this point appreciate what Sweezy remarks in an interview translated by the *Rivista del Manifesto to mark his turning ninety.* Capitalism continuously changes; it never remains the same. This global integration of product and finance in a general theory of the capitalist process is still in its infancy; it is never treated exhaustively. In Keynes there are some hints and also Marx suggests something in this regard, but an actual theoretical elaboration could happen only in a concrete historical phase which made the new theory necessary. This is happening today. Both he and Harry Magdoff feel too old and not intellectually lively enough to deal with the question. What they can do is to encourage younger people to reflect and perhaps come up with some idea.[9]

So far, Sweezy.

The Tendential Fall in the Rate of Profit in Paul Mattick

A figure that might look completely opposite is Paul Mattick. Born in 1904, as a young worker he becomes Spartacist, and participates in the failed German revolution. In the early Twenties, as a 'council communist' and part of the leftist opposition to Leninist bolshevism, he quits the German communist party entering the Workers' Communist Party of Germany (*Kommunistische Arbeiter-Partei Deutschlands*). He emigrates in 1926 to the United States, where he contributes to drafting the Program of the Industrial Workers of the World, Chicago 1933.

Mattick was 'one of the three' of councils' communism, together with Karl Korsch and Anton Pannekoek. Denouncing the limits and involution of the Leninist party, Mattick instead made a case for the importance of the new organizational form that emerged spontaneously during the Russian revolution of 1905: the workers' councils. Coming to the fore again and with greater strength in February 1917, these determined the nature of the revolutionary process, inspiring the formation of similar spontaneous organizations in the German revolution of 1918, and then everywhere until now. According to Mattick, with the council system an organizational form was born capable of coordinating in full independence the autonomous activities of very large masses. Besides essays in critical political economy, he published, from 1934, a review close to the councils' movement, the *International Council Correspondence*, that become *Living Marxism* in 1938, and again changed its name in 1942 to *New Essays*. In 1936 he wrote for Horkheimer's *Zeitschrift für Sozialforschung* an essay on the unemployed workers' movement after 1929: he had participated in spontaneous mobilizations for house occupation, the proletarian use of gas and electricity, and in the big demonstrations which the police ~~was~~ were not able to control anymore.

We'll not follow further his life in the United States, nor his publicist and research activity (two important intellectual biographies have been published about him, one in English by Gary Roth, the other in Italian by Antonio Pagliarone), to focus on what arguably constitutes the core of his reflection. We mainly refer to the theses included in his most renown book *Marx and Keynes* (published in 1969), which neatly synthesises his reflection on the critique of political economy. Politically 'heretic', Mattick follows in the footsteps of an 'orthodox' rereading of Marx, filtered by Henryk Grossmann's theses on accumulation and the falling rate of profit.

We have here something like the negative of Sweezy's thought, which 'replies' to the Keynesian challenge by fully valorising its 'revolutionary' aspects, internal to bourgeois economic theory. Mattick sent an article to the *Monthly Review* entitled *Dynamics of the Mixed Economy* (the relative correspondence to which I refer below is conserved in the *Paul Mattick Papers* at the International Institute for Social History of Amsterdam, and has been made available to me by Gary Roth). Sweezy writes to Mattick on 15 November 1963 after having read the text with much interest, finding it stimulating in spite of dissent on some arguments and formulations: it is too long and, at the same time, too contracted. A second letter by Sweezy is of 30 November, after having received the comments on the text asked by a 'professional' Marxist economist. Sweezy's reservations and criticisms have strengthened: "I don't think your fundamental basic case about the impossibility of continuously stimulating the private sector through expanding the public sector holds". This would certainly be a thesis of major relevance, if it would be possible to prove it. But Sweezy is doubtful, even if he does not aim to reply to that question in an opposite way to Mattick's conclusion: he actually claims he regrets that Mattick's reasoning does not hold. A subsequent contact between them follows Mattick's review of *Monopoly Capital*. On 30 October 1966 Sweezy writes to Mattick, surprised that he can really claim that since 1939 the system has contracted and profitability has reduced as a consequence of State expenditure: the GNP has instead increased 7.5 times, and corporate profits after taxes no less than 9 times. This is compatible with his and

Baran's theories, surely not with Mattick's. The contradictions of the capitalist system, he writes, have not disappeared: yet they have taken a new form, more violent and destructive.

Let's see better what is Mattick's position. One – he maintains – has to come back to Marx's economic theses, circumventing almost the totality of his interpreters in the workers' movement of the Second and Third International. For this reason he regards himself as "Marxian" rather than "Marxist": a distinction later valorised by Maximilien Rubel. Mattick's theses at first sight are inseparable from the tendency to an ineluctable fall of the rate of profit to fall, due to the increase in the organic composition of capital. When one shifts from politics to critical political economy, the 'Luxemburgian' Mattick discards without any trouble the theory of the realization crisis of the author of *The Accumulation of Capital* (who had no sympathy for the theory of the falling rate of profit). According to his criticism, the insufficiency of effective demand expresses an overproduction of commodities, in reason of which the crisis would derive from circulation, and in the last instance from the lack of consumption, rather than from the dynamic of production and from the inadequate amount of surplus value extracted from the living bearers of labour power, as in Marx's *Capital*.

This sort of theses has first of all to be correctly interpreted for what it brings to the debate. For Mattick, Marx was not at all expecting an automatic and merely economic 'collapse' of capitalism. The final crisis of capitalism can be produced only thanks to revolutionary actions. Any real crisis has to be explained building on the concrete conditions. The model of capitalism on which Marx reflects is an 'abstract' model, from which, according to its own author, it is impossible to derive 'forecasts' or empirical confirmations. What in theory is the final result of uninterrupted accumulation of capital must present itself in reality as a recurrent cycle; every cycle, so to say, is a synthetic replication of the long period tendency of capitalist expansion. It is only when the capitalist crisis explodes that the Marxian theory is validated, since it is only in this case that the abstract analysis of value of capitalist production finds its observable verification: when capitalism is in its expansive phase the fall in the rate of profit is compensated by an increase in the mass of profits.

While Keynes attributed the problems of accumulation to an insufficient incentive to invest, Marx traced them back to the fundamental character of production as production of capital and not as production as such. The increase in the organic composition is for Mattick incontrovertible. Whatever the mass of the labour power in capitalism, the mass of the elements of constant capital grows ever more quickly and the part of labour power that produces surplus value is ever more reduced in relative terms. In logical terms this means that an ever more rapid accumulation of capital is bound to transform sooner or later the relative decrease in the rate of profit into an absolute fall. It is only when this happens that reality corresponds to the model of capital accumulation described by Marx.

A capitalist crisis is 'overproduction of capital' only with reference to a certain rate of exploitation. Mattick knows very well that until it is possible to adequately increase the rate of surplus value the tendential fall of the rate of profit remains latent. Moreover, capitalism is not a closed system, hence the increase in the organic composition can be slowed down by means of expanding capital abroad and of profit imported from abroad. He underscores also that recurrent technological leaps are such that, even if the composition of capital may remain the same in material terms, it may decrease in value terms: an 'adjustment' that increases the profitability of capitals. The same capitalist crisis, he writes, is an 'antagonist cause', as well as any concrete phenomenon that increases the surplus value of invested capitals or reduces their value related to the available surplus value. Furthermore, the increase in productivity increases use values (means of production and wage goods), which enables a mobilization of more workers within production. The growing organic composition of capital will not reduce the effective rate of profit as long as capital accumulates faster than the decrease in the rate of profit itself.

Mattick harshly criticizes disproportionality crisis theories à la Tugan Baranowski, which lies at the basis of the reflections first of Hilferding and then of Lenin and Bukharin, according to which crisis would relate to market anarchy. From this comes Hilferding's subsequent thesis according to which, since capitalism is increasingly 'organized', its crises would be lessening in their severity. Social-democrats and bolshevists share the idea that the production process is increasingly socialized and that the shift to socialism is nothing else than taking possession of the State – gradual (entering the engine room) or revolutionary ('breaking' its bourgeois form). Politics would be in this way 'socialized', as economics is already.

For Mattick these approaches, as well as every kind of realization crisis theory, share a basic fault, which lies in their reference to the schemes of reproduction. These schemes cannot be read as the equivalent of the general economic equilibrium of bourgeois theory. When capitalism becomes dominant, 'social need' is ever more demand that capital originates from itself and addresses to itself. It is the production of capital, *qua* capital, that determines the dimension and nature of market outlets: until a sufficient demand of capitalist commodities exists, there is no reason why the commodities that enter the market would not be sold. When the crisis explodes, reality appears turned upside down: the problem of the insufficient production of capital can always be read as problem of insufficient realization of commodities. It seems that surplus value cannot be realized because of an overproduction of commodities. But what is scarce – because of the relative reduction of variable capital within the total capital advanced - is the use value provided by the workers' capacity of labour which is now employed within capitalist production processes: hence the cause of the crisis is the insufficiency of living labour that goes to capitalists in return of the exchange value of the labour power sold as a commodity.

The cause of the crisis is the inadequate degree of exploitation of labour in relation to the profitability which would be required for a progressive accumulation of capital to go on smoothly. Marx's discourse about capitalist crisis centres around a very specific kind of 'disproportion', that of surplus labour over necessary labour. When the forces acting as a countertendency to the fall of the rate of capital valorisation are exhausted, the crisis has to explode because of insufficient 'exploitation', not because of insufficient 'realisation'.

Marx after Keynes

In the end, what Keynes's theory does is to transfer the overproduction of commodities (excess supply on the commodity market) into an overproduction of labour power (excess supply on the labour market). The accelerated development of the capitalist 'core' after the Second World War has only marginally to do with Keynesian policies. What counted was first of all capital's 'de-valorisation': which on one side has come, as always, from the very 'Great Crash' of the 1930s; and on the other from the Second World War, with its destruction of means of production and infrastructures. The possibility of renewing the technical equipment by using the most advanced technologies and organization has allowed capital's growth in Japan and western Europe to be matched with a shove towards a higher rate of surplus value, while wages remained relatively low, in this way keeping at bay (temporarily but significantly) the decline of profitability. European development provided American enterprises with the safety valve of 'multinationalisation', enabling them to react to the first signs of decline in profitability. Yet, any theory that denies the 'objective' limits of capitalist accumulation is, for Mattick, unacceptable.

The age of Keynesian mixed capitalism cannot but be at the end, he wrote. The solution of the problems that the capitalist world has to face can have only temporary validity and the conditions in which a such solution was effective are disappearing. Mattick is very well aware that *Capital* has been written a hundred years earlier, and that Marx has underestimated the adaptive capacity of capitalism because of an overestimation of its difficulties. Marx did not consider the possibility of a 'second life' of capitalism thanks to the intervention of the State, nor could he foresee the entity of the destruction of capital in the two world wars. This does not mean that Keynesianism should not be denounced as a pseudo-solution capable of postponing but not preventing the contradictory progress of capital accumulation that Marx predicted. Unless governments exist which are ready to destroy the domination of private capital and to take control over the whole economy, Keynes's world itself is bound to fall.

A point of Mattick's argument has to be underscored. Demand coming from the State elicits an employment and a production of commodities which, surely, enable the activation of labour power. Yet, this production, which is financed by a given surplus value, does not spring out of 'productive' labour: public expenditure is income expenditure and not capital expenditure. The share of labour employment conducive to (surplus)value is shrinking, while the area of unproductive work is broadening: sooner or later, this must create tensions, which find expression in inflation, first creeping then rampant. It is opportune to extensively quote Mattick to clarify his thought:

> The profitability of the existing and relatively stagnating capital can nonetheless be maintained through an accelerated increase in the productivity of labor, that is, through labor-displacing and capital innovations. The more government-induced production grows, the more urgent is the need for greater production to maintain the profitability of capital. Yet the steady increase of production and productivity reproduces the need for further vast increases in productivity on an ever-narrowing base of private capital production. Even if capital-saving innovations check the growing discrepancy between that capital invested in means of production and that invested in labor-power, and in this manner curb the fall of the rate of profit, the consistent displacement of labor by labor-saving devices will enforce this tendential fall. Yet capitalism cannot do without the steady displacement of labor as the only effective means of coping with the intensified pressure on the rate of profit brought about by the increasing mass of non profitable production. While the increase of productivity through labor-displacements is a way out for capitalism, it is a way which ends in a cul-de-sac.[10]

Full employment of productive resources was obtained by means of a production not aimed at profit. Mattick writes: the ultimate output of capitalist production is a larger capital, the ultimate output of state-induced production is only a larger production as such. From the viewpoint of private initiative, any production the state commands – public works, social expenditure, armaments – belongs to the sphere of consumption. State-stimulated production reduces the overall mass of private profits relative to the overall mass of existing capital.

Keynesianism testifies that the crisis of private production of capital that characterized the Twentieth century has not yet been resolved. The only difference is that the conditions of deflationist depression have been replaced by conditions of inflationist depression.

One well understands why Mattick can draw the conclusion that the capitalist system in all its phases can be considered in a state of permanent crisis. For a start, it is evident that when the "counter-cyclical" State interventionism deepens, the pressure over the wage labour which is directly productive cannot but increase. From the materialisation of the tendency of the rate of profit to fall predicted by Marx one cannot derive any automatic tendency to a revolutionary politics; according to Mattick the tendency to an absolute impoverishment has been suspended for too long. Yet the very re-actualisation of the tendency to crisis cannot but reopen the possibility of an antagonist praxis, even if there is never certainty about it. The Luxemburgian alternative between 'socialism or barbarism' finds confirmation.

Permanent Crisis

Mattick's argument is extremely rigorous. Yet, it is not persuasive in some essential points. First of all, regarding the validity of the theory of the tendential fall in the rate of profit in its classic formulation, due to an increase in the organic composition of capital. In fact, what is relevant is the value composition of capital, that is, the ratio of the value expression of the elements of constant capital over the value expression of the elements of variable capital (as an index of the living labour that the labour power bought by the wage can activate). The temporal dynamic of the organic composition represents the value composition to the extent that its trend mirrors that of the technical composition of capital (the 'physical' relation between means of production and workers). If we assume, with Marx, that mechanisation/automation is the prevalent form of technical progress, it is evident that the organic composition has to increase. It is as if one evaluates the means of production and the wage goods at prices prior to capitalist innovations, without considering the 'de-valorisation' of commodities and of the labour-power itself which stems from the struggle for extra-surplus value (or extra profits) among competing capitals. For the rate of profit the most significant is however the value composition of capital, the one that considers the effects of innovation on the value and price system.

Bearing in mind this, it is perfectly conceivable that the upsurge in the rate of surplus value (with its beneficial effects on the rate of profit) systematically exceeds the rise in the value composition (with its negative effects on the same rate of profit). Also in the extreme case of a labour-power that lives out of air and works twenty-four hours per day, the rate of profit – which at this point reaches its maximum level, corresponding to the inverse of the ratio of the monetary expression of the elements of constant capital over the monetary expression of the output of living labour time – has no necessary tendency to decrease over time. It is actually impossible to exclude that the denominator decreases because of the 'de-valorisation' of the elements of constant capital. In fact, Mattick, after having displayed all the elements for such conclusion, is unable to draw it.

A second point concerns the fact that Mattick's conclusion that the crises of disproportionality or of lacking effective demand are always expression of contradictions on the 'surface' level of circulation is erroneous. Things work differently. In *Capital*, Marx maintains the tendency to a relative fall in the value of labour power. This is the other face of the systematic tendency to the extraction of relative surplus value. The point was reaffirmed by Rosa Luxemburg. Capitalist innovations increase the productive power of labour. The necessary labour contained in the value of labour power is reduced, even with a growing real wage; the part of new value (surplus labour in the form of surplus value) that goes to capitalists, or anyway to the dominant classes, expands. The same innovative investments that determine the relative decrease of the wage share, at the same time modify the exchange ratios between sectors. In other words, it is the very dynamic of capitalist production that leads to those disproportions which can easily become general overproduction of commodities, crisis of realization. When the excess supply occurs in significant sectors, the firms experiencing losses would cease to invest and would fire workers. The demand addressed to other industries would fall and excess supply would spread, infecting one sector after the other, and creating a general glut in the commodity market.

A third point concerns Keynes. Mattick neglects that a higher public expenditure may lead, as a consequence of the direct purchases from the State, and their multiplicative effects, to an increase in time of the employment of workers who are truly productive of surplus value, a labour which is 'commanded' by capital: we have here a production of capital that otherwise would not have occurred. Such increase in demand and production will lead, as a rebound, to an acceleration effect through an increase of capitalist investment, to a further production of capital: the reason is that the increase in the utilisation rate of existing productive capacity, if extended over time, can induce enterprises to equip themselves with new productive capacity.

It would be a mistake, however, not to see the essential importance of Mattick's reflection, too quickly discarding his conclusions. Mattick can see clearly a key point. Marx's theory of crisis cannot be separated from the tendency of the rate of profit to fall: even if such link occurs in a more articulated way than Mattick himself believes. Actually, it seems to me, the tendency of the rate of profit to fall has to be read as a meta-theory of crisis, which extends to a diachronic reading of capitalist 'great crises'. The tendential fall of the rate of profit in its classic formulation is at the origin of the Long Depression of the late Nineteenth century. It was precisely the countertendency to the increase in the organic composition of capital and to the tendential fall of the rate of profit – countertendency concretized in a technical and organizational 'progress' that devalued the elements of constant and variable capital and pushed upwards the rate of surplus value – that determined the conditions leading to the Great Crash of the Thirties for a systematic gap in effective demand. A great crisis due to 'low' profitability, the Long Depression, was therefore followed by a great crisis of 'too much' (potential) profitability, the Great Crash.

Here comes another point on which Mattick is entirely persuasive. The Keynesian reply to the Great Crash of the Thirties determined full employment thanks not only to the central bank as lender of last resort, but also and above all to state intervention in support of a 'generic' demand of commodities (and to military expenditure). This was embodied, to a significant extent, by 'unproductive' expenditures – a crucial point also for the elaboration of Sweezy and the *Monthly Review* group. In this way was emphasised the dependency of capitalist development on the extraction of surplus value, since the smooth prosecution of capitalist accumulation required an increase in the rate of exploitation in the area producing (surplus) value. Thus, again, the conditions were ripe for another great structural crisis for insufficient profitability: the Great Stagflation. What engendered it this time was not an increase in the value composition of capital, but the antagonism over the extraction of living labour. The crisis directly affected the immediate process of valorisation, bringing into question the 'capital relation' itself.

The two antagonists that these pages have addressed, Sweezy e Mattick, did not see in full the terms of the 1960s and 1970s actual 'social' crisis, one being trapped in the argument about the crisis of realization (of an underconsumptionist variety), the other in the argument about (a too mechanical version of) the tendential fall in the rate of profit: both arguments being too 'simple' to grasp the complexity of what was going on. Yet, the one and the other have to be integrated in a broader theoretical argument.

Conclusions

It is only against this background that one can understand what comes later, the new great structural crisis we are living: building on Sweezy and Mattick, yet going beyond Sweezy and Mattick. Capital's reply to the crisis of the Seventies has moved on two legs. On one side, we have work fragmentation, that is the casualisation of labour, both in the labour market and in the labour process, aggressive competition of global players engendering overcapacity, centralization without concentration, transformation of the productive structure towards a capitalism of modular networked enterprises. This is a world of transnational chains of production, of delocalization and in-house-outsourcing, of migrant workers, of increasingly 'feminization' of labour. On the other side, we have financialization. Favoured by the so-called globalization of capital and flexible exchange rates, and by the consequent uncertainty, the renewed primacy of finance has taken the shape of a money manager capitalism - a capitalism of pension funds, speculative funds, hedge funds - that has entailed the explosion of private debt, especially consumption debt, thanks to an inflation of the prices of financial assets that exceeds the horizon of the thinkers considered here (Jan Toporowski has written on this in important works). This new form of financialization is better understood as an authentic 'real subsumption of labour to finance' (to the financial markets and to the banks). It has not only included 'households' in a subaltern way. It has also, on the one side, accelerated the 'deconstruction' of labour in many ways, heavily affecting capitalist labour processes; on the other, it has internally stimulated a rise of effective demand, politically manoeuvred. A sort of paradoxical 'privatized Keynesism', of financial nature.

Fictitious capital has produced hardly fictitious consequences. It has deepened exploitation in the workplaces, with a symbiosis of relative and absolute surplus value extraction; and has created the conditions for the eventual realization of that same surplus value on the commodity market. This world is not understood by an underconsumptionist stagnationism or by the tendency of the rate of profit to fall interpreted in its traditional terms. The crisis has been long postponed thanks to highly activist monetary policies (the role of the central bank as a sort of lender of 'first resort'), which have triggered repeated speculative bubbles in the financial market or on real estate. The growth in asset values has pushed upwards the internal demand in the area of Anglo-Saxon capitalism thanks to indebted consumption, enabling the other areas to practise 'neo-mercantilist' policies, that is to grow thanks to the drive of net export. The world of workers has been everywhere consigned to insecurity, and has been burdened with risks and adjustment costs. Instability has been repressed within an ultimately unsustainable capitalism, in which capital's tendency to a systemic crisis has re-emerged in new and violent forms.

Actually, what has been first included by neoliberalism and then put at risk by its own crisis was, and is, not only consumption and savings. It was, and is – in hardly an exhaustive list – housing, education, pensions, health and care services. In the meantime, wage compression and working time extension and intensification proceed, as well as the aggression to the body and life of male and female workers, up to the spoliation of nature itself. In a word, what is at stake by now are the conditions of existence and reproduction of human beings in their entirety. For this reason, the new systemic crisis puts in front of us the urgent task, of a 'socialization' of the economy (banking and finance, investment and employment), in order to provide in a different way for social needs. A socialization that cannot be separated from a revolution within the mode of production, a reconsideration of the condition of labour as activity, of the 'what, how, how much and for whom' to produce, in a perspective that cannot but look beyond the capitalist horizon, questioning the illusion of a 'return to Keynes'.

In this sense, it seems to me, Mattick's recall of the Luxemburgian alternative 'socialism or barbarism' is more topical than ever.

Translated by Luigi Pellizzoni

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[1] Paul Samuelson, 'Memories,' *Newsweek*, June 2, 1969, p. 84.

[2] John Bellamy Foster, 'Remarks on Paul Sweezy on the Occasion of His Receipt of the Veblen-Commons Award', *Monthly Review*, Volume 51, Issue (04), September. Consulted online the 11th of May, 2017. https://monthlyreview.org/1999/09/01/remarks-on-paul-sweezy-on-the-occasion-of-his-receipt-of-the-veblen-commons-award/

[3] 'Why Stagnation?' is a reconstruction from notes of a talk given to the Harvard Economics Club on March 22, 1982, and was reprinted in *Monthly Review*, Volume 56, Issue 05 (October), from the June 1982. Consulted online the 11th of May, 2017. https://monthlyreview.org/2004/10/01/why-stagnation/

[4] The interview "A Conversation with Paul Sweezy" from which I am quoting was conducted by Sungur Savran and E. Ahmet Tonak**.** It previously appeared in *Obirinci Tez* (Thesis Eleven), a Marxist theoretical journal publised quarterly in Istanbul, Turkey since November 1985 and then in Monthly Review, Vol. 38, April 1987. I quote from the online version consulted the 12th of May, 2017, http://www.glovesoff.org/history_files/sweezy/sweezy_tonak.html.

[5] Taken from Michael A. Lebowitz, "Learning from Sweezy", *Studies in Political Economy*, n. 74, 2004. Reproduced on line and consulted the 12th of May, 2017: https://www.nodo50.org/cubasigloXXI/taller/lebowitz_310305.htm

[6] Baran and Sweezy, *Monopoly Capital*, p. 10.

[7] Baran and Sweezy, *Monopoly Capital*, p. 25-26.

[8] Magdoff and Sweezy, *Stagnation and Financial Explosion*, p.13.

[9] The original is: Phelps, Christopher, Skotnes, Andros, "An Interview with Paul M. Sweezy", *Monthly Review*, Volume 51, Issue 1, May 1999.

[10] Paul Mattick, *Marx and Keynes*, p. 191.

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