A Fundamental Tradeoff in Capitalist Regulation

Marx famously called his theory of socialism "scientific socialism," a name meant to emphasis it's hardnosed analysis of capitalism and the actual possibilities presented by the material conditions it produced. Central to this analysis are several tendencies of capitalism and the ostensible fact that they undermine the foundations of the very economic system that created them. He attempted to show that capitalism was in a state of disequilibrium, and that it would eventually lead to the development of a new economic system as a result. However, Marx's theoretical predictions didn't quickly actualize in the expropriation of capitalists and the establishment of communism in developed, industrialized capitalist countries. Historically, it is evident that state regulation has plaid a part in counteracting some of these tendencies Marx identified and many mainstream economic theories such as neoclassical and Keynesian schools are premised on the idea that a certain policy regime can stabilize capitalism.

Ultimately, though, I believe there is a fundamental tradeoff between two of these tendencies, namely, the tendency of accumulation and the tendency for the rate of profit to fall. Due to this tradeoff, state regulation of capitalism is incapable of reaching an equilibrium which balances all tendencies and prevents their progression.

The tendencies of capitalism identified by Marx include the tendency for the rate of profit to fall, the tendency of accumulation of capital, and the tendency towards consolidation. According to Marx and Engels, the tendency for accumulation, as well as the growth of a global propertyless proletarian class, would simultaneously make the atomized production of current

capitalism obsolete, and create the social force necessary to expropriate the capitalist. As Marx puts it himselft: “The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder, (Marx, Capital Vol 1, 542).” Engels goes into more depth when he describes how “the progressive development of production and exchange nevertheless brings us of necessity to the present capitalist mode of production, to the monopolisation of the means of production and the means of subsistence in the hands of the one, numerically small, class, to the degradation into propertyless proletarians of the other class, constituting the immense majority, to the periodic alternation of speculative production booms and commercial crises and to the whole of the present anarchy of production, (Engels, chp 14). However, as Bernstien pointed out, it was empirically untrue that the development of capitalism had led to the reduction of the proletarian to a propertyless class, or that monopolization had occurred at the pace that Marx had expected. To the extent this has continued to be the case, this was due to the establishment of anti-trust laws and redistributive policies by the state, although Bernstien for his part points to the diseconomy of scales and increasing ownership of capital in his time as reasons.

Certainly, Marx did not completely miss out on the effects of state regulation on capitalism. In his analysis of the working day he described how, while the capitalist impulse is to force the working day to its maximum, the state eventually regulated it thanks to the collective power of the working class fighting against its exploitation, “The creation of a normal working day is, therefore, the product of a protracted civil war, more or less dissembled, between the capitalist class and the working-class (Marx, Capital vol 1, 194).” This metaphorical “civil war” can also be used as the basis for understanding many other moves towards state regulation. Anti-

trust legislation, such as the Sherman act in the US, was passed by the working class organizing against trusts and monopolies and allying with the petite bourgeoise to do so (Palan 9). So too did union and socialist organizing in the early 20th century pave the way for the New Deal and the social democratic period in the west. Taken from this understanding, most government regulations can be seen as the result of class struggle. Indeed, Marx gives us an idea of how exactly this specific class struggle comes about.

> "It must be acknowledged that our labourer comes out of the process of production other than he entered. In the market he stood as owner of the commodity "labour-power" face to face with other owners of commodities, dealer against dealer. The contract by which he sold to the capitalist his labour-power proved, so to say, in black and white that he disposed of himself freely. The bargain concluded, it is discovered that he was no "free agent," that the time for which he is free to sell his labour-power is the time for which he is forced to sell it, that in fact the vampire will not lose its hold on him "so long as there is a muscle, a nerve, a drop of blood to be exploited." For "protection" against "the serpent of their agonies," the labourers must put their heads together, and, as a class, compel the passing of a law, an all-powerful social barrier that shall prevent the very workers from selling. by voluntary contract with capital, themselves and their families into slavery and death." (Marx, Capital vol 1, 195)

The worker organizes against the capitalist because he is forced to by the circumstances he finds himself after entering capitalist production, that his situation is not voluntary. In a more generalized sense, beyond that of the working day, the worker must engage in collective action and compel the state in order to pass laws that will get back some of what has been lost in selling their labor power to capital.

Here enters the rate of profit, which is dependent on both the regulation of the working day, and nearly all state regulation of the economy. Marx defined the rate of profit as the ratio of surplus value to the total capital advanced. In his equation $C' = c+v+s$, where C' is the total value of capital after production, c is the constant capital that is advanced, v is the wages, and s is the

surplus value. Therefor, in terms of this equation, the rate of profit is s/C (Marx, Capital vol 1, 369). According to this definition of the rate of profit, when the amount of constant capital increases, and surplus value remains constant, the rate of profit decreases. So too does it decrease if constant capital is stable, and surplus value decreases, or both constant capital increases and surplus value decreases.

Estimates of surplus value and constant capital, and by extension the rate of profit in the post-war social democratic period vary. However, the general trend of profit remains the same, from the late 40s to 1965 there was a moderate increase in the rate of profit, and then a sharp decrease from 1965 to the late 70s (Moseley, Falling Rate of Profit, 89). These estimates also broadly agree that the increase in the mid 60's was due to an increase in surplus value, however they differ on what the cause of the decline afterwards was. Wolff and Weisskopf's estimates, which are cited by Moseley, indicate a decrease in surplus value as the main cause, while Moseley's explains his results as being due to his decision to not count "unproductive" labor in his calculations, that is the labor required for circulation such as sales, accounting and advertising, or the labor required for supervision such as management. In decomposing the statistics, he found that the biggest increases in unproductive labor came from the commercial sectors such as Retail, and then the "FIRE" sectors of finance, insurance and real estate as well as supervisory labor such as management.

However, this data takes on an odd twist in the light of the neoliberal era. Take the increase in the rate of profit in 1965, of which Mosely says "these estimates also show that the underlying cause of the secular increase in the rate of surplus-value is that for the entire period productivity increased at a faster rate than real wages. However, all this faster increase in productivity occurred prior to 1965; after 1965, productivity and real wages increased at

approximately the same rate" (Falling Rate of Profit, 54). Yet, this gap between productivity and real wages was a relatively small one in the grand scheme of thing, as later data would show, (Bivens et al, 10). In the neoliberal era real wages have remained completely stagnant as productivity has continued linearly. This is especially interesting considering that the rate of profit in the neoliberal has been mostly stagnant, both in the US (Camara 9), and globally (Maito 9). So why hasn't the same situation created higher profits?

Let's return to Moseley's discussion of unproductive labor and its effect on the rate of profit. He rests his case on the idea that labor done to circulate goods, or supervise other workers does not directly create commodities and thus does not create surplus value. Sectors such as finance therefore merely detract from the rate of profit and exist via the surplus value created in other sectors of the economy, even if they are necessary for the circulation of goods. In engaging with a critic regarding the use of unproductive labor as a directly negative force in his summation of the rate of profit, he addresses an argument that the capitalists would not employ such extra labor in finance if they could not produce a profit from it. Moseley was forced to admit that this rise in unproductive labor could increase profits if it helped finance economies of scale or increases in production (Moseley, Unproductive Labor and Rate of Profit, 125). But I think the critique can go deeper than that. Precisely why was there this uptick in employees in the FIRE industry from the 70s to 80s?

One reason may be globalization. Firms that participate in international production need access to foreign currencies, loans and supplies, as well as need to ways to deal with the risks posed by quickly changing exchange rates. This helped lead to the boom in derivatives during this time frame, eventually causing the outstanding value of derivative contracts to be equal to twice the value of world economic output in 1996 (Strange 31). This means that the rise in

unproductive labor may have actually greatly increased surplus value by giving capitalists access to cheap foreign labor. While higher amounts of unproductive labor might by a force that works to increase the tendency for the rate of profit to fall, it also doesn't fully explain the massive drop in the rate of profit in the 1970s thanks to the possible countervailing influences it facilitates.

Fortunately, Marx provides us with another solution. The stagnation and inflation of the period was also caused by a large spike in oil prices. When it comes to rising prices of raw materials and the rate of profit, Marx is clear: "raw materials are one of the principal components of constant capital (Marx, Capital vol 3, 76)." He goes on to add, "Other conditions being equal, the rate of profit, therefore, falls and rises inversely to the price of raw material. This shows, among other things, how important the low price of raw material is for industrial countries, even if fluctuations in the price of raw materials are not accompanied by variations in the sales sphere of the product, and thus quite aside from the relation of demand to supply (Marx, Capital vol 3, 77)." Marx even goes so far to predict that due to increasing productivity and competition diminishing the value of labor and technology in end goods over time, that raw materials would come to make up a larger amount of the value of commodities.

In the case of both oil prices and the amount of unproductive labor in FIRE industries, these variables both leveled off from their peaks in the 1980s and 1990s, but remained at above levels from the post war period.

According to the data, the big decline in the rate of profit in the 70's which was never truly recovered from, was driven by either a constant or falling surplus, but with a constantly increasing amount of constant capital. Here, I think the constant capital is what is essential to

understanding the qualitative change in the US economy, if the increase in constant capital was the primary cause of the fall in profit, then it also means that the continuous increase in surplus value in the neoliberal era only acts to keep the rate of profit even by counteracting the increase in the amount of constant capital. Certainly, more sophisticated computer technology, software and infrastructure such as internet providers has also likely raised the amount of constant capital, even if it has reduced the costs of circulation in some ways. Inversely, the biggest increases to the global rate of profit came during the world wars, even if they were periods of relative strength of the working class, since they included a vast destruction of constant capital.

Therefore, it appears that Marx was largely correct about the tendency for the rate of profit to fall, even if it is stable now. In fact, this aligns rather nicely with his observation that the rate of profit will often hide a rising rate of surplus value "We have just seen that even a rising rate of surplus-value has a tendency to express itself in a falling rate of profit (Marx Capital Vol 3, 171)." The reason as to why the rate of profit is stable now points to the fundamental tradeoff in state management of capitalist tendencies. The primary goal of regulation in the social democratic period, as the result of working class struggle, was the mitigation of accumulation via progressive taxes and the redistribution of these proceeds via social programs, as well as regulations on the working day, and the workplace. However, over time, the unions and left wing political movements that propelled this social democratic consensus faded in power, partly due to their own success and pacification. At the same time capital was going on the offense in its half of the civil war, compelled by the decline in the rate of profit, and the higher rents imposed by labor. This brought about the policy regime of the neoliberal era, characterized by privatization, deregulation, welfare reform, lower taxes and perhaps most importantly: the end of capital controls developed countries.

The example par excellence of this emergence of neoliberal backlash was the Reagan administration and the Republican party's embrace of supply side economics. This embrace, particularly of across the board tax cuts, was sudden and monolithic, especially stark compared to Nixon's declaration only a few years earlier that "we are all Keynesians now," and the previous mainstream Republican position of either supporting tax increases to reduce the deficit or tax decreases for lower income groups in accordance with a Keynesian policy of increasing aggregate demand. Burns and Taylor showed that this sudden change was mostly pushed by the party elites in Washington, and not because of general attitudes or regional political pressure (Burns and Taylor 421). This embrace of supply side economics starting in 1977 came just as the rate of profit was hitting its lowest point. The resurgence of capital in the class war can be marked two years earlier, however, when major investment banks refused to buy New York City's debt as it was mired in a severe financial crisis. This resulted in the banks and creditors of the city taking over its governance, marking the beginning a period of austerity. It's in austerity we see the logic of debt and finance capital take over completely, spending is minimized and taxes are maximized for the purpose of repaying loans.

Austerity, of course, is only one facet of neoliberalism as a historical phenomena, which has, as mentioned earlier, also embraced tax cuts at certain times. While there are divisions in capital that cause for occasional divergences in policy, the neoliberalism has been consistently pro-capital in general. The four initiators of the neoliberal order, on a global scale, have been said to be multinational companies, the transnational financial network, transnational elite networks of intellectuals, and major capitalist countries such as the US (Schiavone 3). The liberalization of finance and austerity have been some of the major consequences of these political forces being able to force competition between countries for credit, investment and

access to international markets. Given that neoliberalism was a response to the crisis of profitability in the 1970s, these measures are aimed at increasing surplus value and accumulation.

Consequently, as the rate of profit has remained stable, it's also lead to a massive increase in accumulation, as seen in the almost linear growth in the top 10% and .1% share of wealth (Saez 8). Thus, the neoliberal era has its own set of contradictions, including that of overaccumulation, and thus overproduction as Marx puts it plainly "Over-production of capital, not of individual commodities – although over-production of capital always includes over-production of commodities – is therefore simply over-accumulation of capital (Marx Capital Vol 3, 177)." With the easing of capital controls there was a boom of foreign direct investment, and industrial production shifted to countries with cheaper labor as capital sought out more profitable investments. This trend of globalization was at least partly predicted by Marx in the Communist Manifesto when he said "The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed," (Marx, Communist Manifesto, 7). The globalization of his day included the extraction of raw materials and selling of end goods to peripheral economies, but, as the cost of labor has increased thanks to class struggle in the developed world, it only makes sense that it would seek out labor from all across the globe as well. And yet, even as this vast increase in surplus value has come about, from higher productivity and cheaper labor, the rate of profit has not increased. When capital begins to run out of these places to easily seize upon this cheap labor and increased productivity, it fuels speculation and overproduction, leading to financial crises.

Aglietta, writing in 1976, describes the situation before the great depression in remarkably similar terms as those of the neoliberal era: "throughout the decade, income distribution shifted rapidly to the detriment of the wage-earners…The increase in the rate of surplus-value that made possible this distortion of income distribution fueled the uneven development of the two departments of production. From 1923 to 1926 the output of producer goods increased at something like double the pace of industrial production as a whole," (358). It appears that the 2008 financial crisis appeared on the same grounds, with great accumulation there came a level of production that couldn't be met by consumption thanks to the waning relative purchasing power of the working class, a contradiction that came to a head in the housing market and the expansion of credit required to maintain the situation. And much like how the Great Depression injected great energy into the worker's movement and increase class struggle, so did the financial crisis of 2008 and the resulting Great Recession.

There have also been some arguments raised that the falling rate of profit itself can contribute directly to economic crisis. For example, the period before the Great Depression, the Stagflation of the 1970s and the 2008 Financial Crisis all had extended stagnant, lower rates of profit before crashing. In defending the thesis of low profitability helping to cause the Great Depression, Dumenil et al showed that this low profitability led to intense speculation and "extreme economizing behavior (Dumenil et al 29)." This extreme economizing behavior essential entails cost cutting in an attempt to keep up a steady flow of dividends and buybacks for stockholders, decreasing the retained earnings of firms and thus investment back into production. Models showed that this kind of behavior made the economy more vulnerable to other shocks. This seems to dovetail extremely well with the moments leading up to other crises. For example, the private venture capitalists of today who will buy up a company, strip off all the

unprofitable parts and flip it, and their predecessors in the junk bond financed takeovers in the 1970s, upon which Strange comments "The inflation of the 70's also made obsolete the historic valuation of corporate assets and thus made firms vulnerable to take over by new firms who could make the original business more profitable by restructuring it (Strange 34)."

Crisis indeed seems to point at which one regulatory regime transitions from one another, opening up a new state ideological paradigm. In all cases, the capitalist drive for profit leads to an overall decrease in slack of the economy when its cost cutting measures fails to increase the rate of profit, leaving them exposed to alternatively falling demand, in the case of the Great Depression and 2008, or rising costs as in Stagflation. Marx puts the germ of capitalist crisis in the heart of its form of exchange. In barter, only the surplus is what is exchanged, whether it is exchanged or not would not create any kind of greater crisis, and the exchange is of use values. That is compared to capitalist exchange, where money acts as an intermediary, and especially credit, and the exchange of use values is indirect. It makes a situation possible where value is not realized, that M-C is not converted back via C-M' and the means of payment come up short. The expansion of credit can help cover up the falling demand caused by accumulation and over production, but it is an unsustainable solution, eventually there is so much debt you begin to see defaults. So too did the state responses to crisis also fail to prevent further ones, both in Keynesianism and the more laissez-faire regimes, instead they have unwittingly aided in the tendency for the rate of profit to fall.

Due to these facts it's apparent that the neoliberal period is not a period of stable equilibrium, much like the social democratic period was not before it. Considering how the neoliberal period was not able to undo the decreases in the rate of profit caused by the social

democratic period, it appears that it is a tendency that cannot be easily undone by the state regulation, unlike those of accumulation and consolidation.

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