Review of Radical Political Economics

Impact Factor: 1.1

5-Year Impact Factor:

Contents

More

Abstract

This paper examine … of capitalism. First, underconsum … tion forces play a direct role only und … er is abundant and investment is d … eory of over investment relative to consumer demand that applies when economic expansion does not pull real wages up as fast as productivity grows. Third, I develop the theory of the underconsumption trap as one result of an economic downturn. I argue that theory of over-investment relative to consumer demand is a plausible story of the 1920s and the origins of the Great Depression of the 1930s, while the underconsumption trap was an important reason why the Depression was so deep and long. Finally, I comment on the possible applicability of the theories to the post-World War II era.

* Workers under capitalism produce surplus-value, which is embodied in a surplus-product and realized (through sale) as a money surplus (total profits), which in turn is distributed as industrial and commercial profits, interest, and rent. The surplus provides most of the funds for capitalist consumption and accumulation.

1. See Sweezy [1942] and Shaikh [1978] for useful reviews of this literature.

2. While Marx and Keynes saw investment as the key determinant of demand, underconsumptionists emphasize the dominant role of consumer demand and the passivity of investment.

3. The issue of the supply of labor-power and the determination of the value of laborpower (and the wage) is thorny. Marx rejected physical-subsistence theories of wages, pointing to the moral and historical element in the reproduction cost of labor-power [1977:2751. He also refers to the "customary supply of labor" beyond which wages are pulled up by capitalist accumulation [1977:763]. Though superior to the neoclassical reliance on unexplained "tastes" (because it points to the need to understand the historical context of the wage struggle and the importance of socially-created needs) it is still hard to pin down theoretically. But one can posit that for any nation there exists a "backward L" shaped supply curve. Real wages rise until the economy gets to the customary supply of labor where the curve becomes inelastic. The elastic "tail" shifts up as needs arise or if the working class as a whole becomes more organized. The curve shifts out with labor-force growth.

The distinction between labor-scarce and labor-abundant hinges on whether real wages rise faster than productivity as labor-power demand (determined by accumulation) moves along this curve. As noted in the final section, increasing international mobility of capital may prevent labor-scarcity from persisting.

4. My conceptions of capitalism and USSR-type systems are similar to Sweezy's [1980].

5. Under capitalism, this bureaucratic tension is a combination of the two more basic ones, competition and class antagonism. Bureaucrats (especially the top ones) slare the power and privileges of the capitalists-and compete to get more-while often (especially at the lower end) selling their labor-power.

6. See the discussion surrounding equation (2) below for a further analysis of conditions allowing production of an "adequate" rate of profit. Though realization conditions follow equation (1), strictly speaking it is not sufficient. The structure of demand must also match the structure of supply (as in Marx's reproduction schemes).

7. Since most markets are normally in disequilibrium, as Arrow [1959] points out, they behave as if they were monopolistically competitive.

8. Some will argue that the rate of profit in formula (2) is not measured the way that Marx would prefer: it is not in value terms, nor does it include the wages of unproductive laborpower as part of the surplus. But that is to miss one implication of the contradiction between social production and individual capitalist appropriation: while Marx's profit rate helps reveal the social nature of production, capitalists (suffering from the illusions produced by competition [Marx 1981:Ch.50]) act according to a rate of profit such as (2).

9. It is true that consumption may slump suddenly if consumers suffer from serious cashflow problems, but this usually occurs after a downswing has begun.

10. "Wasteful" spending is spending done by capitalists that is neither directly productive (i.e., is not on productive workers' wages) nor indirectly productive (i.e., is not on means of production or workers who increase the productivity of productive workers).

11. The other horn of this capitalist dilemma occurs with over-investment relative to supply and causes the high employment profit squeeze to occur, where realization conditions are best but conditions for

the production of surplus-value are poor.

12. This again shows the irrelevance of the theory of "rational" expectations, which conflates individual and collective goals.

13. I have some evidence that other countries suffered from underconsumption problems, which I will make available to interested readers.

14. US Bureau of the Census [1975:96(C76), l O(A29)].

15. Using Lebergott's urban unemployment rate makes the working class's situation appear even bleaker than does Coen's [1973] adjusted version of Lebergott's national unemployment rates. In table II, the unemployment rate averaged 6.2 percent for 1922-29, while for Lebergott's and Coen's national rates, it averaged 3.7 percent and 5.4 percent. The urban unemployment rate is probably more meaningful than the national rate, which aggregates two qualitatively different types of labor-power markets, urban and agricultural.

16. The unionization rate is calculated from US Bureau of the Census [1975:177 (D94) and 126 (Dl)]. It was 8.3 percent and 7.6 percent in 1923 and 1926. The number of work stoppages is from US Bureau of the Census [1975:175 (D970, 977)]. They numbered 1553 in 1923 and 1035 in 1926.

17. Bernstein [19601 and Stricker [1983] describe the working class plight during the 1920s in greater detail.

18. Numbers presented by Kendrick [1961:338-91 indicate that in the private nonfarm economy, output per labor-hour increased on average by 2.1 percent per year between 1919 and 1929 (compared to 1.7 percent between 1900 and 1916). Hourly money wages in manufacturing increased by 1.7 yearly between 1919 and 1929. [US Bureau of the Census 1975:170 (D803)]. This suggests that in the 1920s, unit labor costs fell. Capacity utilization in cycle peaks fell from 94 percent (1923) to 89 percent (1929) [Baran and Sweezy, 1966:237]. The GNP deflator equalled 100 in 1923 and 1929, and 101 in 1926 [Temin 1976:6].

19. As a percentage of national income, the share of profits and net interest rose from 16 percent in 1923 to 19 percent in 1929 [Swanson and Williamson 1972:58, Table 2]. Most of this was at the expense of proprietors' income and rent and the shift seems to be the result of increased urbanization. By looking at R/W, I control for the rural-urban shift.

20. Holt argues that per capita farm income rose significantly during this period. This might undermine the underconsumption view (and the historian's "farmers' depression"). However, the rise in per capita income seems to be the result of the migration of the poorer rural population to the cities. With the decline of farm population, per capita farm income also becomes a smaller determinant of aggregate consumer demand.

21. It is true that the corporate tax rate rose from 12 percent to 13 percent. But the lower rate was restored by the Revenue Act of 1928

22. See also Creamer [1954:48] for evidence indicating falling capital-output ratios in manufacturing during this period. Joseph Gillman's estimates [reported in Castells 1980:33] for the "organic composition of capital" (following standard Marxian definitions) fall between 1923 and 1929.

23. Sirkin [1975] argues that for at least half of the twenty-nine major Dow-Jones industrials studied, stock prices were in line with earnings and their growth in 1929. This indicates that the stock-market boom was not totally irrational for individual speculators.

24. Keller uses numbers from Swanson and Williamson [1972], while here I use Kuznets data presented by R.A. Gordon [1974]. This is simply because Kuznets disaggregated more than Swanson and Williamson. As far as I can tell, similar aggregates move together; thus I switch between the two sets of NIPA according to the type of disaggregation required.

25. For 1924-1926, this ratio was 15.5, so that corporate financial instability first increased and then decreased. Calculated from US Bureau of the Census [1975:989 (X399)] and Swanson and Williamsson [1972:581. Minsky [1982:11] presents data showing a rising corporate debt/income ratio. If Minsky is correct, this strengthens the view that the United States economy in the late 1920s was increasingly fragile.

26. Monetarists [e.g., Schwartz 1981:241 focus on the rise of the hourly real wage during this period. But rather than being the result of a labor-power supply curve moving along an imaginary marginal product curve, the falling hourly real wage probably resulted because employers usually lay off low-paid production workers before high-paid "overhead" workers (supervisors, managers, etc.) In any event, weekly real wages are more important to aggregate demand.

27. For a more general analysis going beyond the Depression, it should not be presumed that worker resistance automatically rises (or, for that matter, is restricted to Depression levels). Class struggle is a profoundly political and social process, not reducible to economics. Divisions in the working class, forms of political and economic organization, and previous experience in the struggle help determine the working class response.

References

Arrow, Kenneth . "Toward a Theory of Price Adjustment." In, Moses Abramowitz et al, eds. *The Allocation of Economic Resources*, pp. 41-51. Stanford: Stanford University Press, 1959.

Google Scholar

Baran, Paul A. and Sweezy, Paul M. *Monopoly Capital*. New York: Monthly Review Press, 1966.

Google Scholar

Bernstein, Irving . *The Lean Years: A History of The American Worker*. Boston: Houghton Mifflin, 1960.

Google Scholar

Bleaney, Michael . *Underconsumption Theories: A History and Critical Analysis*. New York: International Publishers, 1976.

Google Scholar

Boddy, Raford and Crotty, James. "Class Conflict and Macro-Policy: The Political Business Cycle." *Review of Radical Political Economics* 7 (Spring 1975): 1-19.

Crossref

Google Scholar

Braverman, Harry . *Labor and Monopoly Capital*. New York: Monthly Review Press, 1974.

Crossref

Google Scholar

Brunner, Karl, ed. *The Great Depression Revisted*. Hingham, MA: Martinus Nijhoff, 1981.

Crossref

Google Scholar

Castells, Manuel . *The Economic Crisis and A merican Society*. Princeton: Princeton University Press, 1980.

Crossref

Google Scholar

Coen, Robert M. "Labor Force and Unemployment in the 1920s and 1930s: A Reexamination Based on Postwar Experience." *Review of Economics and Statistics* 55 (February 1973): 46-55.

Crossref

Web of Science

Google Scholar

Creamer, Daniel . *Capital and Output Trends in Manufacturing Industries. 1880-1948*. New York: NBER, 1954.

Google Scholar

Devine, James N. *"Marxian Theories of Cyclical Overaccumulation: A Critical Synthesis."* Occidental College, 1982a. (Typescript.)

Google Scholar

Devine, James N. "The Structural Crisis of US Capitalism." *South west Economyv and Society*, second series. 5 (Winter 1982b): 49-64.

Google Scholar

Edwards, Richard . *Contested Terrain*. New York: Basic Books, 1979.

Google Scholar

Fearon, Peter . *The Origins and Nature of the Great Slump, 1929-1932*. Altantic Highlands. NJ: Humanities Press, 1979.

Crossref

Google Scholar

Fisher, Irving . "The Debt-Deflation Theory of Great Depressions." *Econometrica* 1 (1933): 337-357.

Crossref

Google Scholar

Fleisig, Heywood, "War Related Debts and the Great Depression." *American Economic Review* 66 (May 1976): 52-58.

Web of Science

Google Scholar

Friedman, Milton and Schwartz, Anna Jacobson. *The Great Contraction, 1929-1933*. Princeton: Princeton University Press, 1965.

Google Scholar

Gordon, Robert Aaron . *Economic Instability and Growth: The American Record*. New York: Harper and Row, 1974.

Google Scholar

Gordon, Robert J. and Wilcox, James A. "Monetarist Interpretations of the Great Depression: An Evaluation and Critique." In, *Brunner* [1981: 49-107].

Google Scholar

Gramm, William P. "The Real Balance Effect in the Great Depression." *Journal of Economic History*, 32 (June 1972): 499-519.

Crossref

Web of Science

Google Scholar

Holt, Charles . "Who Benefitted from the Prosperity of the 1920s?" *L'x Vplorations in Economic History* 14 (September 1977): 277-289.

Crossref

Web of Science

Google Scholar

Hunter, Helen Manning . "The Role of Business Liquidity During the Great Depression and Afterwards: Differences Between Large and Small Firms." *Journal of Economic History* 42 (December 1982): 883-902.

Crossref

Web of Science

Google Scholar

Google Scholar

Keller, Robert . "Factoral Income Distribution in the United States During the 1920s: A Reexamination of Fact and Theory." *Journal of Economic Historv* 33 (March 1973): 252-273.

Crossref

Web of Science

Google Scholar

Keller, Robert . "Monopoly Capital and the Great Depression: Testing Baran and Sweezy's Hypothesis." *Review of Radical Political Economics* 7 (Winter 1975): 65-75.

Crossref

Google Scholar

Kendrick, John . *Productivity Trends in the United States*. Princeton: Princeton University Press, 1961.

Google Scholar

Kindleberger, Charles . *The World in Depression, 1929-1939*. Berkeley: University of California Press, 1973.

Google Scholar

League of Nations . *Statistical Yearbook of the League of Nations, 1936-193 7*. Geneva: LN, 1937.

Google Scholar

League of Nations . *Industrialization and Foreign Trade*. Geneva: LN, 1945.

Google Scholar

Lebergott, Stanley . *Manpower in Economic Growth: The American Record Since 1800*. New York: Mc Graw-Hill, 1964.

Google Scholar

Lewis, W. Arthur . *Economic Survey 1919-1939*. Philadelphia: Blakiston, 1949.

Google Scholar

Lippert, John . "Shopfloor Politics at Fleetwood." *Radical America* 12 (July-August 1978): 53-70.

Google Scholar

Magdoff, Harry and Sweezy, Paul M., *The End of Prosperity: The A merican Economy in the 1970s*. New York: Monthly Review Press, 1977.

Google Scholar

Marx, Karl . *Grundrisse*, Trans. Martin Nicholas. New York: Vintage, 1973.

Google Scholar

Marx, Karl . *Capital*, Vol. 1. Trans. Ben Fowkes. New York: Vintage, 1977.

Google Scholar

Marx, Karl . *Capital*, Vol. III. Trans. David Fernbach. New York: Vintage, 1981.

Google Scholar

Mercer, Lloyd and Morgan, W. Douglas. "Alternative Interpretations of Market Saturation: Evaluation for the Automobile Market in the Late Twenties." *Explorations in Economic History* 9 (Spring 1972): 269-290.

Crossref

Web of Science

Google Scholar

Mercer, Lloyd and Morgan, W. Douglas. "Housing Surplus in the 1920s: Another Evaluation." *Explorations in Economic History* 10 (Spring 1973):295-304.

Crossref

Web of Science

Google Scholar

Mills, Frederick . *Economic Tendencies in the United States*. New York: NBER, 1932.

Google Scholar

Minsky, Hyman . *Can "It"Happen Again?Essays on Instability and Finance*. Armonk, NY: M.E. Sharpe, 1982.

Google Scholar

Mishkin, Frederic . "The Household Balance Sheet and the Great Depression." *Journal of Economic History* 38 (December 1978): 918-937.

Crossref

Web of Science

Google Scholar

Peppers, Larry C. "Full-Employment Surplus Analysis and Structural Change: The 1930s." *Explorations in Economic History* 10 (Winter 1973): 197-210.

Crossref

Web of Science

Google Scholar

Schwartz, Anna Jacobson . "Understanding 1929-1933." In, *Brunner* [1981:5-48].

Google Scholar

Shaikh, Anwar . "An Introduction to the History of Crisis Theories." In, *US Capitalism in Crisis*, pp. 219-237. New York: Union for Radical Political Economics, 1978.

Google Scholar

Sirkin, Gerald . "The Stock Market of 1929 Revisted: A Note." *Business History Review* 49 (Summer 1975): 223-231.

Crossref

Web of Science

Google Scholar

Soule, George . *Prosperity Decade: From War to Depression, 1917-1929*. New York: Rinehart, 1947.

Google Scholar

Stricker, Frank . "Affluence for Whom?-Another Look at Prosperity and the Working Classes in the 1920s." *Labor History* 24 (Winter 1983): 5-33.

Crossref

Web of Science

Google Scholar

Swanson, Joseph A. and Williamson, Samuel H. "Estimates of National Product and Income for the United States, 1919-1941." *Explorations in Economic History* 10 (Fall 1972): 53-73.

Crossref

Web of Science

Google Scholar

Sweezy, Paul M. *Theory of Capitalist Development*. New York: Monthly Review Press, 1942.

Google Scholar

Sweezy, Paul M. "The Present State of the Global Crisis of Capitalism." *Monthly Review* 29 (April 1978): 1-12.

Crossref

Google Scholar

Sweezy, Paul M. "The Nature of Post-Revolutionary Societies." *Monthly Review* 32 (November 1980): 1-13.

Crossref

Google Scholar

Sweezy, Paul M. and Magdoff, Harry. "Financial Instability: Where Will It All End?" *Monthly Review* 34 (November 1982): 18-23.

Crossref

Web of Science

Web of Science

Google Scholar

Temin, Peter . *Did Monetary Forces Cause the Great Depression?* New York: W.W. Norton, 1976.

Google Scholar

Tobin, James . "Keynesian Models of Recession and Depression." *American Economic Review*, 65 (May 1975): 195-202.

Web of Science

Google Scholar

US Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970*. Washington, D.C.: Government Printing Office, 1975.

Google Scholar

Weeks, John . *Capital and Exploitation*. Princeton: Princeton University Press, 1981.

Google Scholar

Entry
Political Economy

Show Details

CQ Researcher
Report

Economic Growth

Show Details

SAGE Knowledge
Book chapter

Credit and Crisis: An Epilogue

Show Details

View More