

## Historical Materialism research in critical marxist theory

All correspondence with the editors, manuscripts, subscriptions, advertisements and requests for back issues should be addressed to:

### Editorial Advisory Board

- Robert Albritton (Toronto)
- Elmar Altvater (Berlin)
- Chris Arthur (Sussex)
- Jairus Banaji (Oxford/Bombay)
- Roy Bhaskar (Oxford/London)
- Werner Bonefeld (York)
- Robert Brenner (Los Angeles)
- Simon Bronley (Leeds)
- Peter Burnham (Warwick)
- Guglielmo Carcedi (The Hague)
- Andrew Chitty (Sussex)
- Simon Clarke (Warwick)
- Andrew Collier (Southampton)
- George Comninel (Toronto)
- Frank Deppe (Marburg)
- Terry Eagleton (Oxford)
- Gregory Elliott (Brighton)
- Ben Fine (London)
- Bob Fine (Warwick)
- Maurice Goddeler (Paris)
- John Haldon (Birmingham)
- David Harvey (Baltimore)
- Wolfgang-Fritz Haug (Berlin)
- Michael Heinrich (Berlin)
- John Holloway (Edinburgh/Mexico City)
- Geoffrey Kay (London)
- Ray Kiely (London)
- Michael Lebowitz (Vancouver)
- Andrew Levine (Madison)
- Peter Linebaugh (Toledo)
- Michael Löwy (Paris)
- Joe McCarthy (London)
- Scott Meikle (Glasgow)
- István Mészáros (Sussex)
- Fred Moseley (Mount Holyoke)
- Bertell Olinman (New York)
- John O'Neill (Lancaster)
- Kees van der Pijl (Sussex)
- Justin Rosenberg (Sussex)
- Mark Rupert (Syracuse)
- Sean Sayers (Kent)
- Anwar Shaikh (New York)
- Jens Siegleberg (Hamburg)
- Hazel Smith (Warwick)
- Tony Smith (Iowa)
- John Weeks (London)
- Chris Wickham (Birmingham)
- Elen Meiksins Wood (Toronto)

The Editors, Historical Materialism, London School of Economics, Houghton Street, London, WC2A 2AE, UK  
or  
Email: hm@lse.ac.uk

Historical Materialism is published twice yearly. This is issue 5. ISBN: 0 9532171 4 0

Cover Design: Noel Douglas

The Editors would like to give especial thanks to:

- Alan Freeman
- David Lalbman
- Woburn Books

## Historical Materialism research in critical marxist theory

### Editors

- Matthew Beaumont
- Emma Bircham
- Andrew Brown
- Sebastian Budgen
- Alejandro Colás
- Adrian Haddock
- Martin Jenkins
- Esther Leslie
- Martin McIvor
- China Meville

### Editorial Associates

- Gareth Dale
- Paul Field
- Christian Heine
- Hannes Lacher
- Julian Stallabrass
- Miltos Tsiantis

All material © The London School of Economics. All authors assert their moral rights.

Historical Materialism is printed by Creative Print and Design, Harmondsworth.

## Historical Materialism research in critical marxist theory

No. 5 Winter 1999

### Symposium: Robert Brenner and the World Crisis (Part 2)

Editorial Introduction 3

Werner Bonefeld  
Notes on Competition, Capitalist Crises and Class 5

Alan Freeman  
Crisis and the Poverty of Nations:  
Two Market Products Which Value Explains Better 29

Michel Husson  
Riding the Long Wave 77

Anwar Shaikh  
Explaining the Global Economic Crisis 103

Tony Smith  
Brenner and Crisis Theory:  
Issues In Systematic and Historical Dialectics 145

Richard Walker  
Capitalism's Recurrent Self-Criticism:  
An Evaluation of Bob Brenner's Global Economics 179

John Weeks  
Surfing the Troubled Waters of 'Global Turbulence':  
A Comment 211

Article  
Craig Brandist  
Ethics, Politics and the Potential of Dialogism 231

Intervention  
Geoffrey Kay  
Abstract Labour and Capital 255

Reviews  
Jon Gubbay on Erik Olin Wright 281  
Alan Johnson on the Fate of the Russian Revolution 301  
Gregor Gall on John Kelly 327  
Adrian Haddock on Andrew Collier 345  
Sean Sayers on James D. White 359  
Grag Dawes on E. San Juan 367

Notice of next issue 380  
Notice of future issues 381  
Subscription details 382  
Notes on Contributors 383

- Storper, Michael, and Robert Salais 1997, *Worlds of Production: The Action Frameworks of the Economy*, Cambridge, MA: Harvard University Press.
- Storper, Michael, and Richard Walker 1989, *The Capitalist Imperative: Territory, Technology and Industrial Growth*, New York: Basil Blackwell.
- Strange, Susan 1986, *Casino Capitalism*, Oxford: Basil Blackwell.
- Strange, Susan 1998, *Mad Money*, Ann Arbor: University of Michigan Press.
- Sturgeon, Timothy 1999, *Turn-key Production Networks: Industry Organisation, Economic Development and the Globalisation of the Electronics Manufacturing Supply-Base*, Doctoral dissertation, Department of Geography, University of California, Berkeley.
- Von Hippel, Eric 1988, *The Sources of Innovation*, New York: Oxford University Press.
- Wade, Robert and Frank Vencoso 1998, 'The Asian Crisis: the High Debt Model Versus the Wall Street-Treasury-IMF Complex', *New Left Review*, 228: 3-24.
- Walker, Richard 1995, 'Regulation and Flexible Specialization as Theories of Capitalist Development: Challenges to Marx and Schumpeter?' in *Spatial Practices: Markets, Politics and Community Life* edited by Helen Liggert and David Perry, Thousand Oaks: Sage.
- Walker, Richard 1999, 'Putting Capital in its Place: Globalization and the Prospects for Labour', *Geoforum*, 30, 3: 263-84.
- Walton, Whitney 1992, *France at the Crystal Palace: Bourgeois Taste and Artisan Manufacture in the 19th Century*, Berkeley: University of California Press.
- Webber, Michael and David Rigby 1996, *The Golden Age Illusion*, New York: Guilford.
- Wood, Stephen (ed) 1989, *The Transformation of Work?*, London: Unwin Hyman.
- Zander, Ivo 1999, 'Whereto the Multinational? The Evolution of Technological Capabilities in the Multinational Network', *International Business Review*, 8, 3: 261-91.

## Surfing the Troubled Waters of 'Global Turbulence': A Comment

John Weeks

### Introduction

Those familiar with the contributions of Robert Brenner to understanding of the historical development of capitalism, and his devastating critique of the 'regulation school'<sup>1</sup> must, like myself, have felt a sense of anticipation as they began his recent volume on global capitalism since the end of World War Two.<sup>2</sup> While the editor's introduction was pretentious to the point of embarrassment,<sup>3</sup> this unfortunate excursion into naive idolatry should not be attributed to the author himself. However, even those most supportive of Brenner's previous work (again, such as myself), could not help but be disappointed by the contents of 'Global Turbulence'.

While Brenner shows his usual thoroughness and attention to detail in his review of empirical trends, the volume suffers from two serious failings. First, on an empirical level, it refers only in passing to the role of finance capital, whose growing importance in the 1980s and 1990s has been integral to the 'turbulence' that the author seeks to explain.<sup>4</sup> If this is not *Hamlet* without the Prince, it is at the least *Orbello* without Iago. Second, and the subject of this comment, the theoretical framework that provides the central organising theme of the volume is analytically confused.<sup>5</sup> The theoretical argument linking competition to crises suffers from a number of basic conceptual mistakes, as well as purely technical errors. As a result, the subsequent empirical discussion is based upon a vague hypothesis, rather than theoretically grounded. A dissection of the argument is instructive, in that it demonstrates, on the one hand, the eclecticism that results from a confused theoretical framework; and, on the other, the explanatory power that can be achieved from a consistent application of the materialist ('Marxist') theory of value.

<sup>1</sup> Brenner and Click 1991.

<sup>2</sup> Brenner 1998.

<sup>3</sup> The last line of the introduction reads: 'But Marx's enterprise has certainly found its successor' (p. v).

<sup>4</sup> Across the spectrum of commentators, the massive movements of financial capital in global markets are identified as the *sine qua non* of the last 20 years. Particularly important has been their impact on exchange rate instability. For a discussion, see Weeks 1998.

<sup>5</sup> The theoretical framework is presented in Brenner 1998, pp. 24-38.

## Competition and profitability

The central analytical contentions of 'Global Turbulence' are two: first, that it is wrong to explain the 'long downturn', dated from the early 1970s into the 1990s, by rising wages generating a 'profit squeeze' (pp. 13–22); and, second, that the true explanation lies in the intensification of competition among capitals on a global scale. Many writers on the Left (including myself) would agree unreservedly with these basic and familiar contentions.

The reader unfamiliar with the Marxian literature could easily be misled by the author's presentation. It is far from correct to refer to a 'near consensus' of 'Marxists and radicals' that the downturn in profits was the result of a profit squeeze.<sup>6</sup> Pointing this out is not motivated by pedantry, but rather to show that Marxist writers have not been mired in the defence of a wage-profit squeeze mechanism over the last 30 years. On the contrary, the literature has been characterised by a vigorous and lively debate in which the profit-squeeze hypothesis has been continually on the defensive.<sup>7</sup> Further, explaining the downturn by competition was a prominent theme in this debate, as early as the late 1970s.<sup>8</sup> The first contention ('near consensus') and the implication that invoking competition reflects a new insight suggest that the author's knowledge of the empirical literature exceeded his familiarity with theoretical debate.<sup>9</sup>

Lack of familiarity with the work of others is not in itself an egregious sin if the analysis of an author is sound. In this case, lack of familiarity seems accompanied by a failure to grasp fundamental

<sup>6</sup> Brenner refers to the profit-squeeze hypothesis as a 'supply-side' explanation. This terminology is theoretically confusing. If, as his text suggests (Brenner 1998, p.13), 'demand-side' and 'supply-side' are mutually exclusive and exhaustive (i.e. there is no third category), then the competition explanation must be one or the other: 'supply-side', one presumes.

<sup>7</sup> The anti-'squeeze' contributions are many and go back to the 1970s: Shaikh 1978a (perhaps the definitive work); Fine and Harts (1975, on the British economy; 1979, on theory); Yaffe 1973; and Weeks 1977 and 1979, to mention a few.

<sup>8</sup> For example, 'The state can act ... to postpone the crisis ... However, this is done at the cost of maintaining a fragile structure of stratified capitals ...

<sup>9</sup> This is precisely what occurred in the United States economy in the postwar period, and also in the United Kingdom ... By the 1970s, US capital could not maintain its control over domestic markets in major commodities ... US capital has reached the point where accumulation can be sustained only in the context of growing foreign competition' (Weeks 1981, p. 216).

<sup>9</sup> There are a few citations of the relevant literature (eg. Weeks 1981 and Shaikh 1978b, 1980, 1987), but these do not seem to influence Brenner's theoretical argument.

concepts and relationships. The initial conceptualisation of the issue is sound:

I shall take the international economy – the capital accumulation and profitability of the system as a whole – as a theoretical vantage point from which to analyze its crises and those of its national components. (p. 23)

That is, capital is a social relationship which operates at the level of the system as a whole. Therefore, it is disappointing that Brenner proceeds to treat capital at the level of many capitals, rather than as a social relation. The analysis of its movement should be initiated at the abstract, aggregate level. The various constituent parts ('firms' or 'companies') are the concrete manifestation of capital's circulation. To analyse the parts and aggregate to the whole is 'vulgar', treating the appearance of the phenomenon. More rigorously, and not found in 'Global Turbulence', we can specify 'capital accumulation' and 'profitability of the system as a whole' in terms of the three phases of capital's circulation, or 'moments' (to use Marx's term).

The advance of capital begins with money (M),

M >> [CC + VC]

[money form of means of production & labour-power]

followed by the production of commodities (C),

M >> [CC + VC]...P...C\*, where C\* - [CC + VC] = SV

followed by the realisation of the commodities in money form,

M >> [CC + VC]...P...C\* - M\*, and M\* - M = money form of SV.

It should be noted that nothing in the above requires the application of the labour theory of value. The circuit of capital is fundamentally an organising framework, which, in my view, is considerably insightful.

Brenner specifies his explanation of the downturn, in terms of the consequences of productivity-increasing investments.

I shall present an account of the long downturn which finds the source of the profitability decline ... in the tendency of producers to develop the productive forces and increase economic productivity by means of the installation of increasingly cheap and effective methods of production, without regard for existing investments and their

requirements for realization, with the result that aggregate profitability is squeezed by prices in the face of downwardly inflexible costs. I shall explain the perpetuation of the crisis by demonstrating that the profit-maximizing steps capitalists find it rational to take in response to the reduction in their profitability not only fail to resolve the problem that brought down profitability in the first place, but have the effect, in aggregate, of making necessary and rational additional responses which further undercut aggregate profitability. (pp. 23-4)

This passage contains ambiguities, if not inconsistencies, perhaps in part the result of excessively long sentences. One might re-write the passage, Hemingway-style, as follows: (i) producers introduce cost-reducing techniques (presumably as the result of competitive pressures); (ii) these are introduced 'without regard for existing investments and their requirements for realization'; (iii) aggregate profitability falls because prices fall and costs are 'downwardly inflexible'; and (iv) this sequence represents rational behaviour on the part of capitalists.

While the tendency to introduce cost-reducing techniques is clear enough, it is not clear why this would be done 'without regard for existing investments...'. One presumes that he is alluding to the following problem: a capitalist may wish to adopt a new technique when the machinery it replaces has not yet transmitted its entire capital cost to the commodities it has processed. If this is the case (and it is clearly what Brenner has in mind), the capitalist will suffer a financial loss if the old equipment is scrapped. While 'rational responses' is not defined, it is reasonable to assume that this refers to responses which are motivated by profitability. If this definition of rational is accepted, it is not at all clear why a 'rational response' would involve introducing a technique 'without regard for existing investments and their requirements for realisation'. On the contrary, it can be shown that a rational response would involve delaying the introduction of a new technique.<sup>10</sup> Finally, and most serious from a theoretical point of view, it is not possible that price in the

<sup>10</sup> There are two factors at play in Brenner's scenario: (i) the loss a capitalist would incur by scrapping a production process before its full value had been passed on in commodities and realised in sales; and (ii) the loss resulting from not introducing the technique when another producer does. In formal terms, loss would be minimised (profit maximised) by some degree of delay, which reduces both source of losses. In other words, there should be an optimum time for the introduction of the new technique, which involves appropriate 'regard for existing investments and the requirements for their realization'.

innovating sector could fall *and* for costs to be 'downwardly inflexible'. This is easily demonstrated by employing Marx's familiar two-sector model of capitalist circulation. Let Sector I ('department' was Marx's term) I be the producer of means of production, and Sector II be the producer of articles of consumption.

**Table 1: A two-sector model of capitalist reproduction (after Karl Marx)**

	Constant Capital	Variable Capital	Surplus-Value	Total Value
I Means of production	CC1 +	VC1 +	SV1 +	[price falls] = X(1)
II Articles of consumption	CC2 +	VC2 +	SV2 +	= X(2)
	CC1 + CC2 = X(1)		[a fall in the price of inputs lowers costs]	

Each sector's output embodies three components of exchange-value:<sup>11</sup> means of production (constant capital), labour-power (variable capital), and surplus-value. The total means of production used across sectors equals the output of Sector I; and the total consumption of workers and capitalists equals the output of Sector II. If the new technique is introduced into Sector I and price falls (as Brenner assumes), then the means of production become cheaper for the system as a whole; i.e. costs are not 'downwardly inflexible', they fall for all producers. In Sector I, they fall for two reasons: (i) because inputs are used more efficiently ('the installation of increasingly cheap and effective methods of production'); and (ii) because the material inputs now have a lower price. In Sector II, only the first operates. If the new technique is introduced into Sector II and price falls there, then wage costs for both sectors decline.<sup>12</sup> The basic

<sup>11</sup> I am careful here not to specify costs in terms of the labour theory of value, but in terms of market prices. It is my analytical conclusion that market prices are determined by the abstract socially necessary labour-time objectified in commodities, but that argument is unnecessary at this stage in the presentation. It is sufficient to say that commodities bear market prices (by definition), and these are affected by competition among capitals.

<sup>12</sup> If the standard of living is constant (and Brenner has at this point not assumed otherwise), then what capitalists must pay to provide workers with that standard of living will fall when the price of consumption articles falls. This is developed in more detail below.

mistake in Brenner's proposition is that he does not include a fundamental characteristic of all production: each sector of the economy is related to the others through inputs and outputs (what Sraffa called the 'production of commodities by means of commodities').

Having previously written that 'producers ... develop the productive forces and increase economic productivity by means of the installation of increasingly cheap and effective methods of production, *without regard for existing investments and their requirements for realization*' (emphasis added), he then informs the reader that 'cost-cutting firms will add output so as exactly to fill the space of demand left unoccupied by the decreased output resulting from the using up of means of production by higher cost producers' (p. 25); i.e. they will 'regard' existing investments.<sup>13</sup> This contradiction leads to a strong conclusion.

In a world where firms can predict what their competitors will do and perfectly adjust, cost-cutting technical change poses no problem ... [I]n the real world of economic competition individual capitalist producers can neither control nor predict the market for their goods; investments yield profits only after the fact, once they have proved themselves in a potentially destructive competitive war. Under these conditions, the only path to survival and security involves risk-taking by investing in new, more technically advanced means of production and combining these with the lowest possible wage. (p. 25)

This conclusion may or may not be correct, but it is quite startling to come from a Marxist. It asserts that in a world without uncertainty, there would be no tendency for the profit rate to fall, thus, no tendency for a downturn or crisis. That implies that capitalist accumulation has no inherent contradictions. This is, of course, the same conclusion reached by neoclassical economics: that the capitalist system in the abstract tends to a stable, harmonious equilibrium. To concede to them that conclusion gives the game away. If it is accepted that the system in the abstract is stable, then

<sup>13</sup> It is possible that this passage assumes that the cost-cutting firms are never the existing firms. That is, cost-cutters 'exactly' take over the 'decreased output' of non-cost-cutting firms. If so, the assumption is *deus ex machina*, without theoretical or empirical basis. In the general case, 'cost-cutting firms' will, along with new competitors, be improving their techniques. Therefore, it will in part be their own 'decreased output' from the less efficient technique of which they will be 'exactly' filling the space.

risk and uncertainty can be dealt with through invoking futures markets, which allow capitalists to 'hedge' against uncertain events.<sup>14</sup> It is a soft, though perhaps correct, critique of capitalism which concedes its basic stability and appeals to an unspecified 'real world' to account for its ills. A fundamental critique of capitalism, if such exists (and I believe it does), should be capable of demonstrating from its internal logic the instability of the system, without *ex machina* interventions. To put it simply, a theory providing a fundamental critique would not take uncertainty as a natural, external phenomenon, but demonstrate the particular nature of capitalist uncertainty, and how it arises from the particular social relations of capital.

As we explain below, Brenner's conclusion is not sound. One can note that the conclusion, 'technical change poses no problem' when the future is predictable, requires Brenner to invoke *ad hoc* assumptions to produce an unstable outcome. After making the tautological point that 'investments yield profits only after the fact' (they could hardly do so beforehand), he asserts that this will transpire during a 'potentially destructive competitive war'. The word 'potentially' lends a vagueness to the argument that suggests that the author lacks a firm grip on his theory; and, in any case, the 'destructive' and 'warlike' character of competition must be established analytically, rather than asserted.

At this point he has argued himself into a *cul-de-sac*. On the one hand, he has criticised what he calls supply-siders for explaining the 'long downturn' by a profit squeeze. On the other, he edges perilously to the profit-squeeze position himself, by arguing that profits are 'squeezed by prices in the face of downwardly inflexible costs'. In the following passage he embraces this contradiction with characteristic gusto:

In the event that other capitalists outside the lowered profit line secured all and workers secured none of the gains from the lowered price that brought about the reduction of profits in the lowered profit line, capitalists' increase in profitability outside the lowered profit line would balance out the decrease in profitability in the lowered profit line and aggregate profitability for the economy as a whole would stay the same. (p. 29)

<sup>14</sup> If one accepts that the system is stable when producers have perfect foresight, then there is no reason not to assume that the effects of uncertainty are random. If they are random, they can be insured against.

This passage, the key-stone of the theoretical argument, is extremely difficult to decipher, in no small part due to the quite awkward and convoluted writing style. As before, it is helpful to attempt a faithful and simplified paraphrase of the passage: (i) the introduction of technical change lowers costs for the innovating firms, but not for the non-innovating firms; (ii) if in the sector where costs have fallen price falls (call this Product I), then firms in other sectors that use Product I will enjoy lower costs; and (iii) if wages do not rise ('workers secured none of the gains of the lowered price'), then profits for the economy as a whole would not change.

In other words, aggregate profits will fall if, and only if, wages rise. The theoretical perspective of the author begins to emerge: a Ricardian argument is being made. For Ricardo, total value in a capitalist system consisted of income payments to the various classes of society; wages, profits, and rent for Ricardo, wages and profits for Brenner. In this framework profits can fall if, and only if, wages rise. Brenner makes this explicit:

But, this scenario [technical change with unchanged wages] seems an unlikely one, because conditions do not ordinarily exist that could enable capitalists to prevent workers from securing any gains from the reduced price in the form of higher real wages. (p. 29)

The *ad hoc* and tautological character of this passage should be noted. Wages will 'ordinarily' rise because it is 'unlikely' that they would not. There is also a lack of conceptual precision that suggests the argument is on shaky ground (in what conceivable form would workers' gains be secured except for higher real wages?). The Ricardian character of the argument becomes even clearer in subsequent sentences.

On the assumption that the line's output is 'typical' – that is, it is consumed in the same proportion as consumption takes place in the economy as a whole, in accord with the established distribution of consumption of consumer goods and capital goods – the gains from the reduction in price will roughly accord with the established distribution of income between labour and capital. (p. 29)

While there is no citation to explicitly confirm it, Brenner clearly has in mind Sraffa's 'standard commodity' with his reference to a 'typical' output. Sraffa defined the standard commodity as a package of products whose proportions were such that when a unit of it was used as an input to the productive system, it generated an output in

precisely the same proportions (but larger, of course).<sup>15</sup> This concept of a 'typical' output involves an implicit rejection of Marx's analytical approach to accumulation. Rejecting Marx's approach is not a sin. I point it out not as a plea for orthodoxy, but to explore the analytical consequences. In Marx's approach, the production system is divided by types of products. The most abstract and fundamental division is between means of production and articles of consumption (Sectors I and II, Table 1). In contrast to this, Brenner (Sraffians in general) prefer a different abstraction: a representative sector whose output is consumed in the same proportion as consumption takes place in the economy as a whole. The difference in concepts is associated with a difference in analysis. A division of production by the nature of commodities leads inevitably to the use of the labour theory of value to analyse distribution.<sup>16</sup> In this approach, the distribution of new value between wages and profits is treated as part of the more general distributional process for total value (constant capital, variable capital, and surplus-value). In the 'typical' or standard commodity approach, the analysis of distribution is restricted to new, or currently-produced value, and no reference to the labour theory of value is required (indeed, there is no theory of value at all<sup>17</sup>). Thus, it is not surprising that, through over 250 pages, Brenner refers to the labour theory of value not once.

While Brenner's reference to the 'typical' (aka standard) output is instructive, in that it helps clarify his theoretical perspective, it is irrelevant for his argument that rising wages would be the more likely outcome. The composition of output of the sector where a firm has introduced a technical change has no impact, in and of itself, on the 'gains' of labour. 'Gains' refer, one presumes, to the standard of living, which, by definition (at Brenner's level of abstraction) is the collection of commodities which workers consume. The wage is this

<sup>15</sup> Brenner does not have the standard commodity quite right: he restricts it to consumption in the quotation, while it should include production inputs as well. A simple example illustrates this rather esoteric concept. Assume that an economy has two products, I and II, produced with an unchanging technology. One is a material input (say, fertiliser), the other could be a consumption article (wheat). It takes fertiliser to produce fertiliser, and fertiliser to produce wheat. Wheat is the input to 'produce' labour-power. In general, there will exist a combination of fertiliser and wheat, say 4 and 3 units, respectively, which when used as an input package, will create an output of  $\alpha_4$  and  $\alpha_3$ , where  $\alpha$  is greater than one, if the system is described as 'productive'. See Sraffa 1973.

<sup>16</sup> It is beyond the scope of this comment to pursue this assertion. The argument can be found in Weeks 1982 and 1983.

<sup>17</sup> The standard commodity provides a unit of measurement, not a theory of value.

collection aggregated by the prices of the commodities.<sup>18</sup> A fall in price, in and of itself, passes no gain to workers; it lowers the labour cost of capitalists. Gains will accrue to labour if, and only if, the standard of living is raised. I am not arguing that the standard of living would not rise, only that if such a rise is central to an argument, some mechanism by which it would occur should be specified. Brenner specifies no process by which this crucial process would occur. In lieu of the missing theory of wage determination, he offers a conditional assertion.

In any case, if labour is able to get any of the gains from the decrease in prices, then the aforementioned processes – by which a decline in profitability in a given line results from the failure of higher cost, lower profit producers in possession of fixed capital who suffer reduced profitability to leave the line – will indeed result in a fall in profitability for the economy as a whole. (p. 29)

This is, of course, the 'profit squeeze' argument which he previously so vigorously and cogently refuted, in its purest form. He has argued himself into rather constricted analytical corner, where he finds his entire analysis of declining profits in the long downturn dependent upon the very mechanism which he previously rejected. His analytical dilemma is quite ironic, because the argument is wrong. His Sraffian method has led down this garden path. If one discards the Sraffian approach in favour of Marx's two-sector model of accumulation, it is quite easy to demonstrate the conclusion Brenner seeks: technical change, combined with competition, can reduce the aggregate profit rate with no rise in wages; indeed, *the aggregate profit rate can fall even though the cost of labour-power to capitalists falls.*

Table 2 demonstrates how this could occur.<sup>19</sup> The table requires brief explanation (though the computational details are found in the notes below it). As in Table 1, capitalist production is divided into two broad sectors, the means of production (I) and articles of consumption (II). By definition, the former are used only in the production process, and the latter only as direct consumption. In each sector, the production process involves machinery (fixed capital, FC), operated by labour (variable capital, VC), processing material inputs (circulating constant capital, CC). For simplicity, I assume

<sup>18</sup> If there were only one consumption commodity, and workers consumed  $\beta$  units of it per time period, the real wage would be,  $w = x(II)\beta$  where  $x(II)$  is the unit value. See Table 2.

<sup>19</sup> A more rigorous demonstration of the process shown in the table is found in Laibman 1999.

that *initially* the technical composition of capital is the same in each sector (one unit of output requires two machines, one unit of material input, and one worker). The standard of living is the same for workers in both sectors, so the wage is the same. Initially, the profit rate is the same in both sectors, measured either on capital advanced for the period (CC + VC) or on fixed capital. While the numerical parameters are arbitrary,<sup>20</sup> changing them does not affect the conclusions which follow. The quantities in the table are in units of labour-time, and could be converted to monetary values if money were introduced into the system.<sup>21</sup> All numbers refer to one unit of output (constant returns to scale are assumed).

Let a new firm enter Sector I, with a technique that lowers the labour-time required to produce the commodity by 10 per cent. The new firm(s) will be designated Ib, and the old firms Ia. Assume that the new firms enter with a capacity that allows them to seize 20 per cent of the market.<sup>22</sup> Finally, assume that the price of Sector I output is driven down to a level equal to the value of the product as it is produced in Ib firms (from 2 to 1.8, a fall of 10 per cent). The rows identified as 'Period 2' summarise the result. As a result of the fall in the price of Sector I output, the profitability of Ia firms falls from 10 to 8.3 per cent on fixed capital, *even though unit wage costs have fallen* (by five per cent, from 0.6 to 0.57). Unit wage costs for Ia (*non-innovating*) firms have fallen because the consumption commodity is now cheaper than before, and it is possible to provide workers with the same standard of living at a lower wage. Consumption commodities are cheaper because the material input used in Sector II (i.e., the output of Sector I) is cheaper. *Unit material costs for Ia firms are also lower*, because the means of production now sell cheaper than in period 1. Despite lower wage costs and lower materials costs, Ia firms have a lower profit rate, because their fixed capital embodies the pre-innovation value. Their old machinery cost two labour units per machine; if they replaced it, they could do so at 1.8 labour units per machine. However, if they did scrap it, they would suffer a one-off dead-weight loss equal to its remaining value (i.e., the portion that has not depreciated through use).

<sup>20</sup> These are given in the notes to the table.

<sup>21</sup> The analysis need not be in labour-time. That is, the argument does not turn on the use of the labour theory of value. However, the labour theory of value provides the clearest method of presentation. To move from labour units to monetary units would require an excursion into the theory of money, which is beyond the scope of this comment.

<sup>22</sup> Total market size increases in the example, because I assume that the output of Ia firms does not fall.

**Table 2:** A demonstration that technical change can lead to a transitional fall in the rate of profit with a constant standard of living of workers (FC, CC, VC & SV are for one unit of output).

Period	Means of Production Consumer Commodities	FC			unit			profit rates		
		FC	CC	VC*	SV	value	units	cc+vc	FC	
<b>Period 1</b>										
Sector I	Production	4.00	1.00	0.60	0.40	2.00	1.00	25.0	<b>10.0</b>	
Sector II	Commodities	4.00	1.00	0.60	0.40	2.00	1.00	25.0	<b>10.0</b>	
Totals		8.00	2.00	1.20	0.80	4.00		25.0	<b>10.0</b>	
	weights									
<b>Period 2</b>										
Sector Ia		(FC)	CC	VC	SV	unit	based on	FC		
		4.00	0.90	0.57	0.33	value	cc+vc	FC		
						units				
Sector Ib		0.20	3.24	0.73	0.51	1.80	1.00	22.4	8.3	
						1.80	1.00	30.4	11.7	
Sector sub-total		4.81	1.08	0.70	0.42	2.21	1.25	23.8	8.8	
(weighted for shares)										
Sector II		4.00	0.90	0.57	0.43	1.90	1.00	29.3	10.8	
Totals**		8.81	1.98	1.27	0.85			26.3	<b>9.7</b>	
<b>Period 3</b>										
Sector Ia		0.60	4.00	0.80	0.54	0.26	1.60	1.00	19.4	6.5
Ib		0.20	3.24	0.65	0.49	0.31	1.60	1.00	27.0	9.4
Ic		0.20	2.56	0.51	0.43	0.34	1.60	1.00	35.6	13.1
Sector sub-total		6.27	1.25	0.90	0.51	1.60		23.8	8.2	
(weighted for shares)										
Sector II		4.00	0.80	0.54	0.46	1.80	1.00	34.3	11.5	
Totals**		10.27	2.05	1.44	0.97			27.9	<b>9.5</b>	

Note: Within sectors, FC (fixed capital), CC (currently consumed constant capital), VC (variable capital) and SV (surplus-value) are for one unit of output. See appendix for a detailed presentation of the model, and an explanation of how the numerical example was generated.

\*Figures in parenthesis are the material labour input level.

\*\*Average profit rate across sectors depends on relative share of each sector in total value. The weighting in the table is based on the consistency conditions that (i) the production of the means of production is sufficient to provide the current inputs for both sectors, and (ii) the production of consumption commodities equals wages plus capitalist consumption (where the latter is surplus-value minus the accumulation of constant and variable capital for next period).

Guide to table:

A. In period 1, all capitals in each sector (type 'a') operate with the same technology (ergo, 'unit cost'), with the numbers determined by the following parameters.

1. The labour used in each sector is defined as one unit, and a unit of output is defined as the amount produced by one unit of labour in a period (thus, initially, gross output in material terms is one unit in each sector, and the new value produced in each sector is one labour unit).

2. The means of production required for one unit of output is 0.5 in each sector (defined as  $a_1$  and  $a_2$ , where  $a_1 = a_2$ , so the technical compositions of capital are the same in each sector). Thus, the unit values for each sector are (by definition),

$$x(I) = 1\lambda / (1 - a\lambda), \text{ where } \lambda \text{ is the productivity index (equals one in the first period)}$$

$$x(II) = a_2[x(I)] + 1$$

3. There are two units of fixed capital (in material terms) for each unit of output in each sector.

4. The initial level of productivity for each sector is defined as 1 (unity).

5. Each worker is paid 0.3 units of the consumption commodity per period (wage is the same in both sectors).

B. In period 2, a new capital enters sector I (type 'b'), under the following conditions.

1. The productivity of the new producer is 10 per cent higher than for 'resident' producers (the fixed capital and current labour required for one unit falls by 10 per cent, but the means of production consumed in the production of one unit of product (CC) remains the same.

2. The new entrant obtains 20 per cent of the market.

3. The price of production (and market price) of sector I commodities falls to the value level by the unit value produced by the new entrant.

C. In period 3, another new capital enters sector I (type 'c'), under the following conditions.

1. The productivity of the new producer is 20 per cent higher than for type 'a' producers (the fixed capital and current labour required for one unit falls by 20 per cent, but the means of production consumed in the production of one unit of product (CC) remains the same.

2. The new entrant obtains twenty per cent of the market.

3. The price of production (and market price) of sector I commodities falls to the value level set by the unit value produced by the new entrant.



mechanical necessity. It is for this reason that profit rates in capitalist societies do not continuously decline, but sometimes rise and sometimes fall as Brenner points out in his empirical discussion.

**Table 3:** Factors affecting of the likelihood that technical change will result in a lower aggregate rate of profit:

For a given increase in productivity of a technical change occurring in sector I, the aggregate profit rate on fixed capital is more likely to fall,
1) the larger is Sector I compared to Sector II (the technical composition of capital in the aggregate);
2) the greater is the fall in price of Sector I commodities, whose limit is the unit value of the new producers (the intensity of competition in the sector);
3) the larger is the absolute decline in the sales of the old firms in Sector I (Table 1 assumes no change in absolute sales for these firms); and
4) the longer is the useful life span of fixed capital (which affects the decision to scrap old fixed capital).

Note that the new firms are absolutely less costly than the old in every aspect: they have lower fixed capital costs per unit, lower material costs per unit, and lower wage costs per unit; technical change has unambiguously increased the profits of the cost-reducing firm, compared to the old technique.<sup>23</sup> Nonetheless, the aggregate profit rate on fixed capital for the system as a whole has fallen, from 10 to 9.7 per cent. This fall results from the dead weight of old means of production for Ia firms, which cannot be recaptured through sales (because the price of Sector I commodities has fallen). The table pursues the process into a third period, with a new set of firms (type Ic), whose technique is 20 per cent cheaper than for type Ia firms, and 10 per cent cheaper for type Ib firms. Again, type Ic firms are more efficient in every aspect: lower fixed capital cost, lower input cost, lower wage cost, and they drive the price in Sector I down to 1.6, from 1.8. And, again, the aggregate profit rate for the system as a whole falls, to 9.5 per cent on fixed capital.<sup>24</sup>

Thus, using a standard input-output framework, without falling wages, and no recourse to 'uncertainty', Table 2 produces the result that Brenner unsuccessfully seeks to establish. It should be stressed that the falling aggregate profit rate is not an inevitable outcome. Moving to concrete relationships (ones directly implied by our theoretical abstractions), we summarise the likelihood of a fall in aggregate profits in Table 3. The table shows that the decline in the aggregate profit rate is conditional upon concrete conditions, not a

<sup>23</sup> I stress this because of Brenner's footnote 1 on page 11. 'For the fundamentalist Marxist thesis to hold [technical change causes a fall in the rate of profit] ... requires the assumption ... that capitalists adopt new techniques that decrease their own rate of profit ...' (emphasis in original). This characterisation of 'Fundamentalism' is wrong. In this context I must confess to being a 'Fundamentalist' Marxist (though not a fundamentalist Christian, despite having grown up in East Texas).

<sup>24</sup> Note that, through all of this, the profit rate on current costs (CC + VC) has risen, from 25, to 26.3, to 27.9 per cent. This is because unit materials and wage costs are falling in both sectors. Of course, the relevant profit rate of the capitalists is on fixed capital. Brenner explains this clearly on page 6 footnote 9.

In the process of producing a theoretically valid version of Brenner's key conclusion, I have demonstrated that technical change can, under analytically consistent conditions, result in a falling profit rate.<sup>25</sup> This is merely a step in the analysis. One must then go on to show why this should generate instability and, perhaps, crisis. It is not sufficient to argue that lower profit rates result in a slower rate of technical change and this, in turn, is the cause of instability.<sup>26</sup> As Table 2 shows, while the aggregate profit rate falls, aggregate profits rise. If aggregate profits rise, then it is possible for the rate of investment to increase. This is a quite analytically consistent

<sup>25</sup> My example does not violate the so-called Okishio theorem, which states that rational capitalists will only introduce techniques which lower unit costs (thus, raise the rate of profit at prevailing prices). In my example, the theorem holds for the innovating capitalist, even after competition lowers prices.

<sup>26</sup> Brenner seems to believe that lower profit rates are in themselves sufficient: 'The very fall in profitability ... will tend, finally, to further slow the process of adjustment by itself generating further downward pressure on the profit rate, because, as a consequence of the reduced growth of investment that it induces, it will tend to bring about not only ... reduced growth of effective demand, but also reduced growth of productivity.' (Brenner 1998, p. 34) This rather long, multiply-claused sentence would seem to be a tautology.

outcome, because cost-reducing firms must, in the process of competition, enjoy rising profitability. That is, the lower aggregate rate of profit results from an averaging of more efficient and less efficient firms. One possible concrete scenario implied by Table 2 is that the more efficient firms would aggressively cut prices and drive the less efficient form the market. Were this to occur, how would one produce a downturn or crisis scenario?

The answer lies in pursuing further the analytical power of the labour theory of value. The uneven development of capital (in Sector I in our example) results in a number of firms which cannot realise the embodied value of their means of production. In the process of accumulation, these firms have built up a burden of debt, which is the value form taken by their fixed means of production. As technical change (developments in the sphere of production) undermine the value of fixed capital (a relation of distribution), the 'soundness' of the debts of inefficient firms is called into question. As this uneven development and the undermining of debts spreads through the economy, the basis is laid for a credit crisis. If I may allow myself the conceit of breaking a golden rule (never quote yourself):

The pyramiding of credit, which facilitates the centralisation of capital, is the financial side of the development of the productive forces. The development of the productive forces creates a quantitative difference between the value of commodities at the outset of the circuit of capital and at the moment of realisation ... [T]his quantitative difference can turn the tendency of the rate of profit to fall into *actual* decline. With this actual decline, some capitals will no longer be able to meet their obligations and will collapse financially. If sufficient capitals are so affected, a general credit crisis results ...<sup>27</sup>

In other words, the analytical sequence Brenner seeks in his 'Outline of an Alternative Explanation' (pp. 24-38) is the following: (i) technical change generates uneven development within sectors of industry; (ii) this uneven development makes it difficult for increasing numbers of capitals to realise their fixed capital in money form; (iii) 'financial markets' begin to discount the debts of these capitals; and (iv) a crisis looms, which can be triggered by a range of concrete 'shocks', such as a rise in interest rates or a drop in stock prices. Whether a crisis actually occurs is a concrete, conjunctural question; but its possibility is inherent in the interaction of technical change and the financial system (the forces and the relations of

production).<sup>28</sup> In addition, a concrete analysis would require a considerably more developed theory of competition than that presented here or by Brenner.<sup>29</sup>

### Final comments

One should welcome Robert Brenner's volume on global instability for its detailed review of certain aspects of post-war capitalism, and for its emphasis on competition. It provides a wealth of quantitative information, though this information cries out for a rigorous analysis that employs, at the least, basic statistical techniques. Some of the statistics presented must be taken with a quite large grain of salt. To choose one example, the presentation of 'effective exchange rates' and 'relative unit labour costs' in Figure 10 is extremely problematical, due to conceptual issues,<sup>30</sup> definitional problems, and differences in method of calculation across countries. With few exceptions, the reader is provided with no warning about the reliability and cross-country comparability of the statistics presented.

The theoretical weaknesses and rather glaring omission of financial markets do not completely negate the value of 'Global Turbulence'. However, it is in need of a sound theoretical framework and inclusion of the role of financial capital. For a theoretical framework, one might begin with Fine's clear and concise summary

<sup>28</sup> At the level of capital as a whole, the credit crisis arises from the contradiction between money as means of circulation, and money as means of payment (Weeks 1981, Chapter 5).

<sup>29</sup> Competition is central to Brenner's argument, but he treats it in a rather *ad hoc* way. For example, with regard to the entry of new firms into industries, he writes, 'all else being equal, existing firms tend to repel new entrants from the markets they occupy. They do so because they tend, at least for a time, to be more cost-effective than potential competitors.' (Brenner 1998, p. 31.) It is not clear whether this is analytical conclusion or an empirical generalisation. If the latter, it is almost certainly an invalid generalisation (many contrary examples come to mind). In analytical terms it seems quite confused. What 'other things' are being held equal? If they include aspects of competitiveness, it is not clear why the new entrants entered the industry. This and other passages suggest Brenner's theoretical framework is still in process of refinement.

<sup>30</sup> In the neoclassical literature there is a debate over how the effective exchange rate should be measured, as 'purchasing power parity' (which claims to indicate competitiveness), or as the relative price between traded and non-trade commodities. The measure in Figure 10 would seem to be the former. Many mainstream economists would argue that such measures are theoretically invalid.

of Marxian theory,<sup>31</sup> plus Shaikh's survey of crisis theories.<sup>32</sup> A non-technical discussion of financial capital and 'globalisation' is found in Weeks (1998), though there are many other more thorough sources to chose from.<sup>33</sup> Overall, Brenner has provided an input into the ongoing discussion of changes in the world economy which need not be ignored. At the same time, it demonstrates the limits of an analysis largely based on empirical insights. Few social phenomena are as complex as so-called globalisation, and description without a coherent theory is at best partial, at worst misleading.

#### Appendix: Explanation of accumulation model

The algebraic model used to generate the numbers in Table 2 is as follows. Each commodity is produced by use of homogeneous labour and an input. Sector I produces the input and Sector II produces a consumption commodity. If we measure each commodity by the labour-time it takes to produce it, the value of each commodity is as follows, where one unit of each commodity is initially defined as the amount produced by one unit of labour (eg. one hour). Thus, for each,

[value of the commodity,  $x_i$ ] = [quantity of input,  $a_i$ ]  $\times$  [value of input,  $x_1$ ]  
+ [value added by labour]

$$\begin{aligned} x_1 &= a_1 x_1 + 1 \\ x_2 &= a_2 x_1 + 1 \end{aligned}$$

An increase in labour productivity involves, by definition, more output per unit of labour. Let  $\lambda$  be a productivity index for Sector I, such that  $\lambda = 1$  in the first period. Productivity of labour is assumed constant in Sector II. If  $\lambda$  is less than unity (and greater than zero), productivity increases.

$$(1a) \quad x_1 = a_1 x_1 + 1/\lambda$$

$$(2a) \quad x_2 = a_2 x_1 + 1$$

These can be solved as follows:

$$(1b) \quad x_1 = \lambda / (\lambda - a_1)$$

$$(2b) \quad x_2 = a_2 [\lambda / (\lambda - a_1)] + 1$$

While there is no productivity change in Sector II, increases in productivity in Sector I reduce the value of the Sector II commodity, because the input becomes cheaper. The absolute profit in each sector depends on the value of the wages; ie. of the value of the commodities which workers can purchase with their wage. If this is equal to one, there is no profit (the value of each commodity is made up of the input value and the value of wages). Let each worker consume an amount of the consumption commodity in each period equal to  $\beta$ . Since one unit of the consumption commodity is defined as that produced by one unit of labour, it follows that profit (assumed equal to surplus-value) is positive if  $\beta$  is less than one (and greater than zero). Profit in each sector is:

$$(3) \quad SV = (1 - \beta) x_2$$

<sup>31</sup> Fine 1975.

<sup>32</sup> Shaikh 1978a.

<sup>33</sup> Quite good are chapters 3 and 4 of the UNCTAD Trade and Development Report 1998, 'International Financial Instability and the East Asian Crisis', and 'The Management and Prevention of Financial Crises'.

By substituting (2b) into (3), the absolute profit for each sector is derived. This generate model is rendered a numerical example by assuming the following parameters:

$$\begin{aligned} a_1 &= a_2 = 0.5 \\ \beta &= 0.3 \end{aligned}$$

It is further assumed that one unit of each commodity requires two units of fixed capital (four units of Sector I output). The numerical values for each time period in the table are obtained by substituting these parameters and assuming,  $\lambda = 1$ , period one;  $\lambda = 0.9$ , period two; and  $\lambda = 0.8$ , period three.

#### References

- Brenner, Robert 1998, 'The Economics of Global Turbulence', *New Left Review*, 229: 1-264.
- Brenner, Robert and Mark Glick, 1991, 'The Regulation Approach: Theory and History', *New Left Review*, 188: 45-114.
- Fine, Ben 1975, *Marx's Capital*, London: Macmillan.
- Fine, Ben, and Laurence Harris 1975, 'The British Economy Since March 1974', *Bulletin of the Conference of Socialist Economists* 4: 3.
- Fine, Ben and Laurence Harris 1979, *Rereading Capital*, London: Macmillan.
- Laibman, David 1999, 'Rising "Material" vs. Falling "Value" Rates of Profit: Trail by Simulation', unpublished manuscript.
- Shaikh, Anwar 1978a, 'An Introduction to the History of Crisis Theories', in *U.S. Capitalism in Crisis* edited by Bruce Steinberg, et al. New York: Union for Radical Political Economics.
- Shaikh, Anwar 1978b, 'Political Economy and Capitalism: Notes on Dobb's Theory of Crisis', *Cambridge Journal of Economics*, 2, 1: 233-52.
- Shaikh, Anwar 1980, 'Marxian Competition versus Perfect Competition: Further Comments on the So-Called Choice of Technique', *Cambridge Journal of Economics*, 4, 1: 75-84.
- Shaikh, Anwar 1987, 'Organic Composition of Capital', in *The New Palgrave: A Dictionary of Economics* edited by J. Eatwell et al. London: Palgrave.
- Staffa, Piero 1973, *The Production of Commodities by Means of Commodities*, Cambridge: Cambridge University Press.
- United Nations Conference on Trade and Development (UNCTAD), 1998, *Trade and Development Report, 1998*, Geneva: UNCTAD.
- Weeks, John 1977, 'The Sphere of Production and the Analysis of Crisis in Capitalism', *Science and Society*, 41, 3: 281-302.
- Weeks, John 1979, 'The Process of Accumulation and the "Profit Squeeze" Hypothesis', *Science and Society*, 43, 3: 259-80.

- Weeks, John 1981, *Capital and Exploitation* Princeton: Princeton University Press.
- Weeks, John 1982, 'A Note on the Underconsumptionist Theory and the Labor Theory of Value', *Science and Society*, 46, 1: 60–76.
- Weeks, John 1983, 'On the Issue of Capitalist Circulation and the Concepts Appropriate to its Analysis', *Science and Society*, 47, 2: 214–25.
- Weeks, John 1998, 'The Essence and Appearance of Globalization: The Rise of Finance Capital', in *Globalization and the Dilemmas of the State in the South* edited by Francis Adams, Dev Gupta Satya and Mengisteab Kidane, London: Macmillan.
- Yaffe, David 1973, 'The Marxian Theory of Crisis, Capital, and the State', *Economy and Society*, 2, 2: 186–232.

## Ethics, Politics and the Potential of Dialogism\*

Craig Brandist

When, in the early 1980s the ideas of post-structuralism seemed rampant within academic critical theory, the appearance of the flawed English translation of Mikhail Bakhtin's central essays on the novel seemed to offer a very promising alternative perspective.<sup>1</sup> Bakhtin's model of discursive relations promised to guard the specificity of discourse from being obscured by a web of determinations, while allowing the development of an account of the operations of power and resistance in discourse that could avoid the nullity of Derrida's *hors-texte* and the irresponsible semiotic hedonism of the later Barthes. Marxist theorists such as Raymond Williams, Terry Eagleton and Alton White immediately and effectively seized upon the translated work of the Bakhtin circle to bolster their arguments, but, as translations of the earlier and later philosophical material appeared, it became apparent that the relationship between work of the circle and the Marxist tradition was very problematic. With this, the American anti-Marxist Slavists – some of whom had been responsible for certain of these translations – moved onto the offensive, arguing that Bakhtin's work was fundamentally incompatible with, and in principle hostile to, Marxism. Occasionally, they went further, arguing that Bakhtin was quite unconcerned with politics and questions of power, being an ethical, or even a religious philosopher before all else. The Americans did have a point. Bakhtin certainly was not a Marxist and the Marxism of some of his early colleagues and collaborators was of a rather peculiar sort. Furthermore, the key problematic area was indeed Bakhtin's ethics which, it became ever more apparent, underlies his most critically astute and productive work and serves to blunt its political edge. Important points of contact between the work of the Bakhtin circle and Marxist theory do persist, however, as Ken Hirschkop and Michael Gardiner, among others, have continued to register. In this article, examining some of the sources of Bakhtin's philosophy, which have only just been revealed in the new Russian edition of his work, we shall analyse the features of

\* Research for this article was carried out with funding from the AH/RB of the British Academy.

<sup>1</sup> Thanks to Galin Tihanov for his constructive and critical remarks on an earlier draft of this paper.