In Answer to Criticisms on *The Theory of Capitalist Development*

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I have been invited by the editor of *The Economic Review* to comment on reviews by Professor Yoshida and Mr. Kazahaya of my book *The Theory of Capitalist Development.* I am more than happy to accept this invitation, but I must explain, especially to the reviewers themselves, that my comments are based on brief digests* of their reviews and not on the full texts, which are not available to me. Under the circumstances, the reader will understand that I am unable to quote their exact words, and it is of course not impossible that I may have misunderstood or failed to appreciate some of their arguments. If this should be the case, I can only apologize and hope the editor will give the reviewers whatever space may be necessary for them to reply.

I

Professor Yoshida centers his critical remarks on my exposition of the theory of crises arising from underconsumption. He has, I am sure, put his finger on one of the weakest parts of the book. I was never altogether satisfied with this exposition, and if I were writing it again today I would certainly do it differently. At the same time, however, I must admit that, though I have given considerable thought to the question, I have not come to definite conclusions or formulations.

Professor Yoshida is correct that the constant ratio between stock of means of production and output of consumption goods (or output of all kinds of goods) cannot be theoretically defended. Given a rising organic composition of capital, this ratio must also rise. But I do not think this is very important from the point of view of the problem of underconsumption. The growth of constant relative to variable capital is a gradual, long-term, technically-conditioned trend which certainly cannot be expected to accomodate itself to the manner in which fresh surplus value is capitalized. As a first approximation, therefore, it may be quite legitimate to postulate a constant ratio between capital and output.

I share Professor Yoshida's preference for the Marxian two-department scheme over the Keynesian aggregative models (whether the aggregates are net or gross), and of course a large part of my treatment of underconsumption crises is devoted to explaining and analysing the two-department scheme under conditions of expanded reproduction. It is true, however, that my own exposition of the theory of underconsumption is couched

* The digests, which were compiled by the editors and sent to Dr. Sweezy, follow this communication.——the editors.

in terms of net aggregates. It is a little hard for me to reconstruct the reasons for this at a distance of nearly 10 years. I suppose that in part it was due to the intellectual environment in which I was working; nearly every one thought and talked in terms of aggregates, and I was naturally not unaffected by that fact. An additional reason was that my own thinking on this subject at the time I was writing the book was influenced to a considerable extent by the relevant chapter in Otto Bauer's *Zwischen Zwei Weltkriegen* (a very valuable and stimulating book which deserves to be more widely known than it is). Bauer likewise used aggregates in this connection, though I am sure this was not due to Keynesian influence. Still another reason may have been the fact that aggregative analysis lends itself much more readily to relatively simple mathematical treatment, and this presented a temptation to which I was at that time by no means immune.

But whatever the reasons, there is no doubt that in my handling of underconsumption there occurs a rather abrupt transition from departmental to aggregative analysis. It seems to me today that this is unfortunate, if not positively wrong, and if I ever prepare a revised second edition of the book I intend to try to formulate the whole chapter in terms of the departmental scheme. I have not yet done this, however, and I hope that by the time I get to it I shall have much new and valuable work, especially by younger theorists like Professor Yoshida, to draw on.

Apart from questions concerning the formal aspects of the theory, I take it from Professor Yoshida's remarks that he does not dispute the essence of the theory of underconsumption presented in *The Theory of Capitalist Development*, namely, that "capitalism has an inherent *tendency* to expand the capacity to produce consumption goods more rapidly than the demand for consumption goods" (p. 180) and that this is one of the fundamental contradictions of the system. This is, I think, an extremely important point and one which, as I tried to show, by no means all Marxian writers have accepted. I should hope that a careful working out of the theory in terms of the departmental scheme would lead to a much more substantial measure of agreement among Marxian economists than has existed heretofore.

In concluding my comments on Professor Yoshida's review, let me say that I agree with him that the kernel of the problem of crises lies in the process of accumulation and how the disproportionate growth of investment is made possible and then subsequently becomes untenable. I would only add that under certain circumstances the underlying contradiction manifests itself in another form: the untenability of a disproportionate growth of investment is to a certain extent foreseen with the result that the volume of investment is curtailed and the economy stagnates instead of going through a boom and a crash. Something like this, I believe, happened in the United States during the 1930's and could happen again, perhaps even in the fairly near future. It would seem to be connected with the growth of monopoly and what is ironically called "planning" in capitalist circles.

II

It seems to me that Mr. Kazahaya makes rather too much of my use of the term "theory of general equililibrium." The sentence in which the term appears (p. 53) can be omiitted entirely without in the last changing or distorting the sense of the passagen in weich it occurs. I used it merely to try to make my meaning clearer to economists trained in the orthodox tradition and unfamiliar with Marxian ideas. Admittedly, there are difficulties, and perhaps even dangers, involved in trying to explain aspects of one theoretical system in terms of concepts peculiar to another, but if we are to communicate successfully I think we must sometimes take the risk.

With regard to the meaning of the term, it seems to me that Mr. Kazahaya goes too far in identifying the theory of general equilibrium with modern bourgeois economics. It is a theory developed by one school of economists and covers only a small part of modern bourgeois economics. Moreover, while modern bourgeois economics in general does take for granted the permanence of capitalism, the theory of general equilibrium as such is as applicable to simple commodity production as it is to capitalism and does not necessarily imply the permanence of either. The significance of the theory of general equilibrium is that it shows more clearly than any other part of bourgeois economics how and why private producers, each producing individually and wite only his own interest to guide him, are tied together into a mutually interdependent *system*. In Marxian political economy, the law of value performs the same function, and it is this fact which led me to compare the two.

Of course Mr. Kazahaya may be right that I have not succeeded in transcending the limitations of my own training as an orthodox economist. That is for others than myself to decide; after all, the subjective judgments of an author are not worth much in matters like this. But I do think that to support his contention he will have to do more than cite my use of the term "theory of general equilibrium."

Turning now to the problem of the role of the law of value under socialism, it seems to me undeniable that Marx used "the law of value" to designate the regulative mechanism of a *capitalist* society. The regulative mechanism of a socialist society, on the other hand, is conscious, centralized planning. These two mechanisms are not only different, they are the direct opposites of each other. It was for this reason that I wrote the passage which Mr. Kazahaya quotes: "In the economics of a socialist society the theory of planning should hold the same basic position as the theory of value in the economics of a capitalist society. Value and planning are as much opposed, and for the same reasons, as capitalism and socialism." (p. 54)

The only work by Soviet economists bearing on this subject that I have seen is the well-known article by Leontiev and others which appeared in 1943 (published in English translation under the title "The Teaching of Economics in the Soviet Union" in the *American Economic Review* for September 1944; the most important parts were also published in English in *Science & Society*, Spring 1944). There is nothing in this article to induce me to change my mind about the correctness of the position taken in *The Theory of Capitalist Development*. Nor, in my judgment, is there any contradiction between that position and the *substance* of the views expressed by Leontiev and his collaborators. The *apparent* contradiction between the two arises from the fact that Leontive et al. give the "law of value" a different, and as it seems to me rather special, meaning. They use the term to designate not the regulative mechanism of an unplanned capitalist society but the apparatus of money and prices through which that mechanism works. *In this sense* it is certainly true that the law of value applies to a socialist society, for, as is obvious from two decades of Soviet experience, centralized planning also requires this apparatus to operate efficiently.

I suppose that the Soviet economists, in raising this question and in insisting that socialism cannot do without the law of value, were combatting ill-considered and harmful theories to the effect that socialist economy has nothing whatever in common with capitalist economy.[1] This is certainly desirable and necessary, though I am not convinced that it required them to interpret the law of value in a way which is certainly different from Marx's normal usage of the term.

However that may be, it seems to me wrong to make a great issue of principle out of this question. As society develops and socialism replaces capitalism, old terms inevitably take on new meanings, and perhaps this will be the case with the law of value. There is nothing sacred about Marx's usage, as I am sure Marx himself would have been the first to admit. At the same time, however, there is also nothing wrong about adhering to the older usage in spite of indications that a change may be in the process of developing.

1) On this point, and indeed on the whole range of issues raised by the Leontiev article, see the excellent communication, "New Trends in Russian Economic Thinking?" by Paul A. Baran, *American Economic Review*, December 1944.

III

The editor of *The Economic Review* has also asked me to comment on the article by E. D. Domar, "The Problem of Capital Accumulation" (*American Economic Review*, December 1948), insofar as this article relates to the theory expounded in my book. I can do this the more briefly since Professor Domar deals only with the aggregative analysis criticized by Professor Yoshida and since, as I have already indicated, I am not satisfied with this analysis myself.

First, let me say that *from the point of view of aggregative analysis* Professor Domar's criticisms seem to me to be on the whole well taken. If one looks only at aggregates, there is no justification for postulating a special relation between stock of capital and output of consumption goods (this is a point also made, at least by implication, by Professor Yoshida), and Professor Domar is right to substitute the relation between stock of capital and total output. Moreover, by making this change, and by a few further emendations, he shows that it is possible to obtain stronger results than I obtained in the book. There is, however, this important difference: since consumption has been merged into total output, the results obtained by Professor Domar's method can no longer be said to have any relation to the problem of underconsumption. That problem simply disappears, and what emerges from his reasoning—or it might be more accurate to say, what could be derived from his reasoning—can perhaps be called a theory of a tendency to overaccumulation.

According to this theory, genuine overaccumulation will occur only if the rate is so high as to be incapable of being sustained by available physical resources—at least I think this is a fair interpretation—and Professor Domar seems to be quite certain that this is also what my theory (of underconsumption) implies and is intended to imply. In this connection, he cites p. 189 where I speak of abundant or rapidly increasing manpower and alludes to Chapter XII where the population and manpower problems are dealt with in considerable detail.

As far as my theory is concerned, Professor Domar is very wide of the mark here. In my opinion, underconsumption (and the kind of overaccumulation, or potential overaccumulation, which can always be said to be the counterpart of underconsumption) has very little to do with physical limitations on the growth of production. The problem, it seems to me, is the failure to establish and maintain tenable proportions between consumption and the other components of total production, and this failure exists and normally manifests itself in the form of crises before physical limitations put a check on the growth of total production. My emphasis on population arises not from a belief in its importance as a physical barrier to the expansion of production but rather from the belief that the rate of population growth, operating through its effect on the rate of wages and the division of newly capitalized surplus value between variable and constant capital, plays a highly important role in determining the *relative* size and rate of growth of consumption.

I thought I had made this position clear on pp. 222–225, but at the same time I can hardly blame Professor Domar if he misunderstood me. From his point of view, the interesting part of my analysis is the aggregative scheme (pp. 180 ff.), and here my attempt to bring in the consumption factor was, as I have already noted, a failure. Professor Domar, however, considered the attempt to be a slip of the pen rather than a failure—otherwise how could he write, "I hope I do not violate the spirit of Sweezy's theory by substituting 'income' for consumption"—and he was understandably not prepared to find anything inconsistent with this interpretation in other parts of the book. The root of his misunderstanding lies in my having introduced the aggregative scheme at all. Such a scheme is not suitable for analysing the problem of underconsumption, and I should not have attempted to make use of it.

The main lesson to be drawn from Professor Domar's paper, therefore, is much the same as the main lesson of Professor Yoshida's review, namely, the necessity to stick to departmental analysis and to work the underconsumption problem out afresh and in detail in these terms. I regard this problem as a standing challenge to Marxian economists. The first one to solve it satisfactorily will, I am convinced, be making a theoretical contribution of the greatest importance.