

# Economic Progress and Economic Surplus<sup>1)</sup>

Paul A. Baran

The spectacular economic upsurge in the socialist sector of the world, the growing pressures for economic development in the colonies and dependencies of the advanced capitalist countries, and the dangerous lability of the economies of the advanced capitalist countries themselves place once more the inquiry into the nature and causes of the wealth of nations into the forefront of economic thought.

This "home-coming" is, however, by no means altogether joyous. Compelled by the pressure of historical events to turn to the thorny problem of economic development, economists discover with much surprise and alarm that they have to face their new task almost entirely empty-handed. The sins and omissions of the past come back to haunt the present: the analytical apparatus required for the understanding of the process of economic and social change was allowed to become neglected and rusty under the regime of "pure economics" under which static equilibrium analysis, the properties of the model of "perfect competition" and matters similarly unrelated to social and economic dynamics were accorded the pride of place on the theoretical agenda. "The economists explain to us the process of production under given conditions; what they do not explain to us, however, is how these conditions themselves are being produced, i. e. the historical movement that brings them into being."<sup>2)</sup>

In what follows an attempt is made to submit for renewed consideration an old and simple concept

that appears to be quite helpful in thinking about economic and social development.

## I

Let economic growth be defined as increase over time in *per capita* output of goods and services.<sup>3)</sup>

3) Colin Clark suggests a different definition: "Economic progress can be defined simply as an improvement in economic welfare. Economic welfare, following Pigou, can be defined in the first instance as an abundance of all these goods and services which are customarily exchanged for money. Leisure is an element in economic welfare, and more precisely we can define economic progress as the attaining of an increasing output of these goods and services for a minimum expenditure of effort, and of other scarce resources, both natural and artificial." *The Conditions of Economic Progress*, London: Macmillan and Co., 1940, p. 1. This definition appears to me inadequate for a number of reasons: (i) The identification of economic growth with increase in welfare leaves out of account a considerable share of total output that bears no relation to welfare, however that latter may be conceived: currently produced investment goods, armaments, net exports and the like belong into that group. (ii) Regarding an increase of output of "all these goods and services which are customarily exchanged for money" as identical with "improvement in economic welfare" is untenable. Economic welfare may be greatly improved by an increased supply of goods and services that are customarily *not* exchanged for money (schools, hospitals, or—if preferred—churches) while on the other hand a great number of goods and services that *are* customarily exchanged for money make no contribution whatever to human welfare (patent medicines and beauty parlors, narcotics and items of conspicuous display, etc.) (iii) While it is obviously *desirable* to secure any given output with a minimum of input, even an inefficiently secured increase in output would still constitute economic growth. It would seem to be preferable, therefore, to consider economic growth as an *increase in output* of goods and services regardless of whether they

1) I am greatly indebted to my friend, Paul M. Sweezy for comments and suggestions that convinced me of the necessity of completely reworking an earlier draft. Needless to say, such errors and confusions as may have still remained in this paper have to be blamed on no one but the author.

2) Karl Marx, *The Poverty of Philosophy*, p. 86 (German Edition, translated by this writer).

Such an increase can be the result of one of the following developments (or a combination of them):

(a) The aggregate resource utilization may expand *without changes in organization and/or technology*, i. e.

make [a contribution to welfare, to the available stock of producers' goods or armaments—leaving to a related but nevertheless separate examination the factors determining the composition of this output and the purposes to which it is put. It may be permissible to neglect in the present context the difficulty of comparing outputs over time, a difficulty arising whenever the outputs to be compared consist of more than one product, whenever, therefore, changes in output may affect its components unequally, and whenever certain products appear in the output of one period without appearing in the output of the other. This familiar index number problem, disturbing as it is even with regard to slow, gradual developments, becomes particularly vexing, when what is considered is more or less rapid economic growth, the outstanding characteristic of which is profound change not only in the magnitude but also in the composition of output. Indeed inter-temporal comparisons threaten to be outright misleading when the periods to be compared are separated by changes in economic and social organization, by big spurts in urbanization, by increases or declines in the "marketed share" of output and so forth. Especially troublesome is the services sector, the expansion of which would cause an increase in Gross National Product (as conventionally defined) suggesting thus "economic growth"—although in most underdeveloped countries it would be considered to be a retrograde step rather than one in the direction of economic progress. This was noted in the *U. N. Economic Survey of Europe since the War* (Geneva 1953): "In the eastern European countries services not directly connected with the production and transport of goods are not regarded as productive and their value is thus excluded from national income. For a poor country which is trying to develop its industry and to reduce the under-employment, common in service trades, the Marxist definition of national income has some obvious advantages over the more inclusive concepts suited to wealthy industrialized economies and now commonly adopted in under-developed countries." (p. 25) Yet to the extent to which available computations are based on the "more inclusive concept" there may be no alternative to using them. It should be borne in mind, however, that for most important purposes it is the *breakdown* of the Gross National Product estimate rather than the aggregative number that is of relevance.

previously unutilized resources (manpower, land) may be brought into the productive process; (b) The productivity per unit of resources at work may rise in view of *organizational measures*, i.e. by a transfer of workers from less productive or unproductive occupations to more productive pursuits, by a lengthening of the working day; by an improvement in nutrition and strengthening of incentives available to workers, by rationalization of production and more economic utilization of fuel, raw materials, etc.: (c) *Society's "technical arm" may become stronger*, i. e. (i) the wear and tear of plant and equipment may be replaced by more efficient facilities,<sup>4)</sup> and/or (ii) new (technologically improved or unchanged) productive facilities may be added to the previously existing stock.

The first three routes to expansion of output—(a), (b), and (c i) are typically not associated with *net investment*.<sup>5)</sup> The fourth (c ii) is synonymous

4) It is important to note that the higher the degree of development of a country, the more important is this factor in the process of growth. As with rising "organic composition of capital" depreciation allowances become an ever larger share of the value of total output, the mere plowing back of the depreciation allowances on a higher technological plane may cause a significant increase in productivity. While this development aggravates the instability of the advanced capitalist economies by increasing the amount of currently available surplus that has to be disposed of by investment—it also gives the advanced countries a major advantage over the underdeveloped countries where the annual amortization allowances necessarily amount to little. Cf. Karl Marx, *Theories of Surplus Value*, Lawrence and Wishart, London, 1951 pp. 354 f. where this point is stressed.

5) In actual fact some net investment may be needed for all of them: previously unused resources may be unusable without some outlays on equipment, soil improvements and the like; organizational changes may be predicated upon the installation of conveyer belts or similar devices; technological progress yielding improved machinery to be added to or substituted for worn out equipment may be only forthcoming under conditions of large net investment. In the words of Engels: "If.....technique largely depends on the state of science, science depends far more still on the *state* and the *requirements* of technique. If society has a technical need, that



with net investment. Although it is probably impossible to impute to each of these four processes the specific share of the increase of output for which it is responsible, there can be little doubt, that the economic application of increasing technical knowledge and net investment in additional productive facilities have been the most important sources of economic growth.

Net investment can only take place, however, if society's total output *exceeds* what is used for its current consumption and for replacement of the wear and tear of its productive facilities employed during the period in question. The volume and the nature of net investment taking place in a society at any given time depends, therefore, on the *size* and the *mode of utilization* of the currently generated *economic surplus*.<sup>6)</sup>

It is essential to differentiate in terms of "comparative statics" three variants of the concept of economic surplus: (a) *Actual* economic surplus, i. e. the difference between society's *actual* current output and its *actual* current consumption. It is thus identical with current saving and finds its embodiment in assets of various kinds added to society's wealth during the period in question: <sup>7)</sup> productive facilities

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helps science forward more than ten universities. The whole of hydrostatics (Torricelli, etc.) was called forth by the necessity for regulating the mountain streams of Italy in the sixteenth and seventeenth centuries. We have only known anything reasonable about electricity since its technical applicability was discovered." Karl Marx and Fredrich Engels, *Selected Works*, Vol. II, Moscow, 1950, p. 457. Cf. also the interesting essay by Stephen F. Mason, "Historical Roots of the Scientific Revolution" in: *Science and Society*, Summer 1950.

6) Strictly speaking this applies only to the world as a whole or to closed national systems, since frequently individual countries are able to supplement their own outputs with the outputs of other countries—however acquired.

7) It is a matter of definition whether *durable* consumer goods (residential dwellings, automobiles, etc.) should be treated as representing saving rather than consumption. It would seem to be preferable to make the distinction not on the basis of the physical properties of the assets involved but in the light of their economic function, i. e. depending on whether they are acquired for consumption purposes or

and inventories, foreign balances and gold hoards. Such surplus has been generated in all socio-economic formations and while its size and structure have markedly differed from one phase of development to another, its existence has characterized nearly all of recorded history. The magnitude of the actual economic surplus (saving) is at least conceptually readily established and is to-day regularly estimated by statistical agencies in most countries. Such difficulties as are encountered in its measurement are technical and caused by the absence or inadequacy of statistical information.

(b) *Potential* economic surplus, i. e. the difference between the output that *could* be produced in a given natural and technological environment with the help of *actually* employed productive resources and what might be regarded as *essential* consumption. In most cases, its realization would presuppose a more or less drastic reorganization of the production and distribution of social output and may imply far reaching changes in the structure of society. It exists in three distinct forms. One is society's excess consumption (predominantly on the part of the upper income groups), the other is the output lost to society through the existence of unproductive workers, the third is the output lost because of the irrationality and wastefulness of the prevailing economic organization.<sup>8)</sup> The identification and measurement of these three forms of the potential economic surplus run into some obstacles. These are essentially reducible to the fact that the category of the potential economic surplus itself transcends the horizon of the existing social order—relating as it does not merely to the easily observable performance of the given socio-economic organization but also to the less readily visualized image of a more

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in order to be used as a means of production, or of commercial activity.

8) This leaves out of consideration Keynesian underemployment—the most obvious source of potential economic surplus in advanced capitalist countries, partly because attention is focused on the potential economic surplus existing even under conditions of so-called full employment, partly also because *Keynesian* underemployment is rarely of interest in the case of underdeveloped countries.

rationality ordered society.

Indeed, if looked at from the vantage point of feudalism “essential,” “productive,” and “rational” was all that was compatible with and conducive to the continuity and stability of the feudal system. “Non-essential,” “unproductive,” and “wasteful” was all that interfered with the preservation and normal functioning of the *status quo*. Accordingly Malthus staunchly defended the “excess consumption” of the landed aristocracy pointing at the employment-stimulating effect of such outlays. On the other hand, the economists of the ascending bourgeoisie had no compunctions about castigating the *ancien regime* for the wastefulness of its socio-economic organization, and about pointing out the parasitic character of many of its most cherished functionaries.<sup>9)</sup>

Yet as the capitalist order has become fully entrenched and as capitalist institutions and relationships have grown to be the institutions and relationships of society as a whole, the rubber stamp of rationality and adequacy was indiscriminately placed on all aspects of the best of all possible worlds. By elevating the dictum of the market to the role of the sole criterion of reason and efficiency, economics denies even all “respectability” to the distinction between “essential” and “non-essential”

9) “The labor of some of the most respectable orders in the society, is like that of menial servants, unproductive of any value.....The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive laborers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people.....In the same class must be ranked.....churchmen, lawyers, physicians, men of letters of all kinds: players, buffoons, musicians, opera-singers, opera-dancers, etc. ....” Adam Smith, *Wealth of Nations*, p. 295.

“When the annual productions of a country more than replace its annual consumption, it is said to increase its capital; when its annual consumption is not at least replaced by its annual productions, it is said to diminish its capital. Capital may, therefore, be increased by an increased production or by a diminished unproductive consumption.” *Principles of Political Economy and Taxation*, Everyman's Library ed. p. 150.

consumption, between “productive” and “unproductive” labor, between actual and potential surplus. “Non-essential” consumption is justified as providing indispensable incentives, unproductive labor is glorified as indirectly contributing to production, waste is defended as a prerequisite of “freedom.” “As the dominion of capital extended, and in fact even those spheres of production not directly related to the production of material wealth became more and more dependent on it, and especially the positive sciences (natural sciences) were subordinated to it as means towards material production—second rate sycophants of political economy thought it their duty to glorify and justify every sphere of activity by demonstrating that it was ‘linked’ with the production of material wealth, that it was a means towards it: and they honoured everyone by making him a ‘productive worker’ in the ‘narrowest’ sense—that is a worker who works in the service of capital, is useful in one way or another to its increase .....”<sup>10)</sup>

Yet “capitalism creates a critical frame of mind which after having destroyed the moral authority of so many other institutions, in the end turns against its own: the bourgeois finds to his amazement that the rationalist attitude does not stop at the credentials of kings and popes but goes on to attack private property and the whole scheme of bourgeois values.”<sup>11)</sup> Thus from a standpoint located outside and beyond the capitalist frame of reference, from the standpoint of a socialist society much of what appears to be essential, productive, rational to bourgeois economic and social thought turns out to be non-essential, unproductive, and wasteful. It may be said in general that it is only the standpoint that is intellectually outside of the prevailing social order, that is unencumbered by its values, its superstitions and its “self-evident truths” that permits critical insight into that social order's contradictions and hidden potentialities. The exercise of self-critique

10) Karl Marx, *Theories of Surplus Value*, Lawrence and Wishart, London, 1951, p. 177.

11) J. A. Schumpeter, *Capitalism, Socialism and Democracy*, Harper and Brothers, New York, 1950, p. 142.



is just as onerous to a ruling class, as it is to a single individual.

This is why socialist critique of the prevailing social and economic system finds a relatively sympathetic reception on the part of orthodox economics as long as it is directed at the remnants of the feudal order. The excess-consumption of the landlords in backward countries is no less an admissible target of attack than the general wastefulness of their economic organization.<sup>12)</sup> This critique is frowned upon, however, as soon as capitalist institutions *sensu stricto* are implicated or as soon as the imperialism of advanced capitalist countries is considered in its relation to the stagnation of the underdeveloped areas. Similarly economists, socially and mentally anchored in the competitive, petty-bourgeois phase (and stratum) of the capitalist society, have developed a certain degree of clairvoyance with respect to the irrationality, wastefulness and dangers of monopoly capitalism. Oblivious of the fact that it is liberal, competitive capitalism that gives rise to monopoly, they realize some of the economic and social costs of capitalism's monopolistic phase, discern some of the most obvious manifestations of excess consumption, unproductive activities, irrationality of "economic royalism".<sup>13)</sup> At the same time the writers who have either liberated themselves from the shackles of an earlier age or who have grown directly into the "new era" are at times impressively perspicacious when debunking the competitive idols of the past—the sacrosanct virtues of capitalism's competitive adolescence.

It is this insight (and information) occasionally encountered in economic writings, in conjunction with the experience gathered in period when the interests of the capitalist society as a whole come

12) Although this is true with increasing reservations. At the current, imperialist stage of capitalist development placing too much emphasis on the socio-political structure of backward countries as the main obstacle to their progress is looked upon askance.

13) These "liberal" economists typically fail to see, however, the progressive, productivity-and organization-promoting function of monopoly capitalism that is thus laying the material foundation of the socialist order.

into conflict with those of its individual members, that permits an at least proximate assessment of the nature (and magnitude) of the potential economic surplus. With regard to large segments of the population not only of underdeveloped countries but of the advanced ones as well, what constitutes essential consumption is ascertainable. Where living standards are in general low, and the basket of goods available to the consumer little variegated—essential consumption can be circumscribed in terms of calories, other nutrients, quantities of clothing, fuel, dwelling space, etc. Even where the level of consumption is relatively high and involves a large variety of consumer goods and services, a judgment on the amount of real income necessary for what is socially considered "decent livelihood" can be made.<sup>14)</sup> This is precisely what has been done in all countries in emergency situations such as war, postwar distress, etc. What to the agnostic purist and worshipper of "consumers sovereignty" appears as an unsurmountable obstacle or as a manifestation of reprehensible arbitrariness—is wholly accessible to scientific inquiry and to common sense judgment.<sup>15)</sup>

Similarly the classification of unproductive workers is less complicated than usually assumed. Most generally speaking those are individuals whose activities are not directly related to the process of production (or who are engaged in the production of non-essential goods) and who are maintained by a part of society's economic surplus.<sup>16)</sup> It is entirely

14) Food, housing, and medical requirements for various countries have been studied by the United Nations, Food and Agriculture Organization and other agencies, and represent a most important field of further investigations. Cf. *Calorie Requirements*, F. A. O. Nutritional Studies No. 5, Food and Agriculture Organization, Washington June 1950; National Research Council, *Recommended Dietary Allowances*, Reprint and Circular Series, Washington, 1948; *Housing and Town and Country Planning*, United Nations 1949-1950 as well as the material referred to in these sources.

15) Where essential consumption is never defined as such, nonessential consumption is readily identified for purposes of war economic controls, excise taxation or foreign exchange regulations.

immaterial in the present context that many unproductive workers render services that are eminently useful to society as a whole or at least to the class dominant in it.<sup>17</sup>) As useful as physicians or as useless as public relations experts, as socially desirable as artists or as socially harmful as narcotics peddlers, as respectable as bishops or as disreputable as gamblers—the unproductive workers have still to be supported by a share of society's material output to the production of which they make no direct contribution. A large proportion of these unproductive workers can be estimated directly by consulting the occupational breakdown of the population: government officials, members of the military establishment, clergymen, etc. Others lurking in the complex spiderweb of the economic system: advertising agents, brokers, merchants, beauty parlor operators and the like are not quite as readily identified. Nevertheless literature abounds with references to them and much of the necessary evidence can be pieced together from some of the more useful writings on welfare economics.<sup>18</sup>) A particularly good

16) "All members of society not directly engaged in reproduction, with or without labor, can obtain their share of the annual product of commodities—in other words their articles of consumption—primarily only out of the hands of those classes who are the first to handle that product, that is to say, productive laborers, industrial capitalists, and real estate owners. To that extent their revenues are substantially derived from wages (of the productive laborers), profit, and ground rent, and appear as indirect derivations when compared to these primary sources of revenue. But, on the other hand, the recipients of these revenues, thus indirectly derived, draw them by grace of their social function, for instance, that of a King, priest, professor, prostitute, soldier, etc. and they may regard these functions as the primary sources of their revenue." Karl Marx, *Capital*, Vol. II (Kerr ed.), p. 429.

17) This distinction would be relevant only at the point of transition to a different social order where the former group of unproductive workers would be retained in their occupations while the latter would be shifted to other activities.

18) Cf., for instance, *Does Distribution Cost Too Much?* The Twentieth Century Fund, New York, 1939; K. W. Kapp, *The Social Cost of Private Enterprise*, Harvard University Press, Cambridge, Mass., 1950.

example is given by Schumpeter: "A considerable part of the total work done by lawyers goes into the struggle of business with the state and its organs.....in socialist society there would be neither need nor room for this part of legal activity. The resulting saving is not satisfactorily measured by the fees of the lawyers who are thus engaged. That is inconsiderable. But not inconsiderable is the social loss from such unproductive employment of many of the best brains. Considering how terribly rare good brains are, their shifting to other employment might be of more than infinitesimal importance."<sup>19</sup>) Once more: although there is no sharp dividing line between productive and unproductive work performed in a capitalist society, but rather a spectrum running from wholly unproductive labor on one end to wholly productive on the other—in times of emergency this problem is more or less successfully solved. Unproductive workers are drafted into the army while productive workers are deferred. Labor exchanges move people from less essential to more essential positions. Rationing boards issue different ration cards to individuals in different occupations—with productive workers receiving preferential treatment.<sup>20</sup>)

Conceptually no more complex although, perhaps still more difficult to measure is the third form in which potential economic surplus is hidden in the capitalist economy. The waste and irrationality of production that fall under this category can be observed in a great number of instances. They

19) J. A. Schumpeter, *op. cit.*, p. 198.

20) To avoid misunderstanding it should be stressed that the designation of a worker as "unproductive" is *not* tantamount to his being labeled "unnecessary." Many unproductive workers are necessary, indeed essential. In the capitalist order, however, under normal non-emergency conditions the criterion of essentiality is market demand for their services, a demand determined by the class-structure, income distribution, ideology of the capitalist society. Under socialism, on the other hand, the criterion of essentiality would be altogether different, and derived from the changed structure of society, its different tastes and requirements as well as from the working principles of a planned economy.



appear as excess capacity, under-utilization of economies of scale due to irrational product differentiation, inefficiency of firms shielded by monopolistic market positions, duplication of facilities called forth by competition, inadequate exploitation of technological progress caused by the desire to preserve the value of capital assets or by reluctance to expand output and so forth.<sup>21)</sup> Of a different nature but also constituting part of the potential economic surplus is the loss of output due to the underemployment of productive resources in small, owner-operated competitive enterprises conducted on a lower than available level of technology or the loss of agricultural output occasioned by restrictive schemes and production controls of all kinds.<sup>22)</sup>

While even under emergency conditions only a relatively small part of this type of potential economic surplus is actually tapped, what has been accomplished on occasions suffices to indicate at least the dimensions of the problem involved. The war-time increase in output that resulted merely from concentration of production in large-scale plants, from the elimination of the most flagrant cases of duplication, cross-hauling and inefficiency was most impressive in the United States as well as in Great

21) As mentioned before these "flaws" of economic organization particularly pronounced under monopoly capitalism are usually well brought out by the economists deriving their inspiration and categories from the competitive period of capitalist development. Employing the model of "perfect competition" as their "standard of perfection" they usually forget that ".....perfect competition is not only impossible, but inferior, and has no title to being set up as a model of ideal efficiency." Schumpeter, *op. cit.*, p. 106.

22) The willingness on the part of economists taking an affirmative view of the capitalist system to recognize and condemn its wastefulness and irrationality when these wastefulnesses and irrationalities date back to pre-capitalist times is best illustrated by the attitude of enlightened writers towards gold. Few of them would disagree today with Keynes' dictum that "gold is a barbarous relic" and few would deny that the approximately 1 billion dollars worth of resources annually used in the world on the production of gold is nothing but waste in the midst of scarcity.

Britain and Germany.

(c) If the potential economic surplus is a category of considerable interest to a capitalist society under emergency conditions as well as to a nation embarking upon a program of economic development—what may be called the *planned* economic surplus is relevant only to comprehensive economic planning under socialism. It is the difference between society's "optimum" output attainable in a given technological and natural environment under conditions of planned "optimal" utilization of all available productive resources—and some chosen "optimum" volume of consumption. The conditions of its realization are in all respect different from those pertaining to both the actual and the potential economic surplus. In the first place it does *not* presuppose a maximum output that might be attainable in a country at any given time. While it *does* imply a far-reaching *rationalization* of the productive apparatus (liquidation of inefficient units of production, maximal economies of scale, etc.), abolition of many kinds of unproductive labor (butlers and lawyers, preachers and brokers), and elimination of a large share of excess consumption—it may well be associated with a less than maximal output in view of a voluntarily shortened labor-day, of conservation of natural resources or of conscious discarding of certain noxious types of production (coal mining, for example). Nor does it call for reduction of consumption to merely what is essential—it may well go together with a level of consumption that is considerably higher than what the criterion of essentiality might suggest. What is crucial is that it would not be generated by the mechanism of profit maximization, but would be determined by a social plan and would depend on what society would *consciously* decide to produce, to consume and to save at any given time. It may therefore be larger or smaller than the actual economic surplus under capitalism, or may even be equal zero if society should choose to refrain from net investment.

## II

As indicated above, from the standpoint of economic growth interest attaches to both, the *size* and

the *mode of utilization* of the economic surplus.

Under conditions of low productivity current output tends to be absorbed by current consumption. There may never have been a stage in historical development (as distinct from pre-historic times) at which no economic surplus was generated by society's productive effort. If observations made in contemporary primitive societies provide adequate cues to the remote past, some economic surplus was embodied in durable goods (dwellings, canoes, tools, livestock, and the like) even under the most confining economic circumstances.<sup>23)</sup> The quantity of these (simple and inexpensive) durable goods would seem to have been small and only slowly growing. While there may have been a more or less sustained replacement of the available stock of such durable goods (interrupted only by natural disasters and ravages of war) without any or with very little changes in technology—only scant "net investment" was taking place in any given period.

Whatever actual economic surplus was generated on the basis of the low total output of primitive economies was the result of the still lower standards of consumption. Not only did these standards barely reach physiological subsistence minima, but the quantities of supplies constituting those minima were markedly smaller than what they have come to be in later phases of history.<sup>24)</sup>

23) "In the primitive community saving is of minor importance.....but can be recognized as the 'natural capital' of plants and domestic animals especially cattle." Raymond Firth, *Primitive Polynesian Economy*, George Rutledge and Sons, London, 1939, pp. 9 ff. The wisdom of calling the implements of production developed in a primitive economy "capital" is obviously highly dubious!

24) Cf. Raymond Firth, *op. cit.* pp. 32 ff. for a description of the diet and living conditions in Tikopia, as well as Melville J. Herskovits, *The Economic Life of Primitive Peoples*, Knopf, New York, 1940, pp. 246 ff. See also the illuminating discussion of the historically changing nutritional standards in Audrey I. Richards, *Hunger and Work in a Savage Tribe*, The Free Press, Glencoe, Ill., 1948. It is not quite clear whether the changes in the nutritional standards reflect actual changes in physiological (and psychological) requirements or rather variations in the states of health, in life expectancy, etc. It is

Yet even under such circumstances the *potential* economic surplus exceeded the actual economic surplus, although the difference between them was probably small. Still, full-time priests and full-time warriors supported by a share of their communities' output are reported to have existed at the dawn of our historical experience.<sup>25)</sup>

Subsequent history is marked by a continuous growth of the potential economic surplus with a now widening, now shrinking gap between the potential and the actual economic surplus. Output in antiquity expanded much faster than mass consumption. ".....It was thanks to a unique crop of technical inventions—the plough, the wheeled cart, the sailing boat, the solar calendar, the smelting of copper ores, the use of the power of the oxen and the harnessing of the winds with sails—that (the classical) civilizations had come into being."<sup>26)</sup> At the same time the living conditions not only of the slaves but of the lower classes in general were held down to nearly primitive levels. ".....(The) division of society ensured that the vast masses of the (Roman) empire never tasted the fruits of their labor.....Because wealth was concentrated at the top, the body of society suffered from chronic under-consumption."<sup>27)</sup>

Nevertheless, actual economic surplus was relatively small. The large difference between the po-

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possible that nutritional *optima* for human beings are today not much different from what they were thousands of years ago, although the *size* of the human being and, therefore, its need for food would seem to have significantly increased. Cf. M. Kovalovski, *An Outline of the Origin and Development of Family and Property*, Fourth Lecture.

25) However, speaking of "barbarism" Engels observes that "war, formerly waged only in revenge for injuries or to extend territory that has grown too small, is now waged simply for plunder and becomes a regular industry." Friedrich Engels, *The Origins of the Family, Private Property, and the State*, Karl Marx and Friedrich Engels, *Selected Works*, Vol. II, Moscow, 1950, p. 150. To this extent professional warriors cease to be "unproductive" workers living off their communities' output, but "earn their way" by "productive" labor.

26) F. W. Walbank, *The Decline of the Roman Empire in the West*, Cobbett Press, London, 1948, p. 26.

27) *Idem*, p. 27.



tential and the actual surplus appeared in the proverbial excess-consumption of the rich as well as in the equally proverbial multitude of unproductive workers. What was to become the largest single claimant of potential economic surplus—the state—began commanding a growing share of total output.<sup>28)</sup>

Nor was the situation much different during the Middle Ages. "It would be interesting, though it is impossible to discover how much the peasants made on.....manors which their holders did not farm for profit, after working for a whole year from one to three days a week on the lord's demesne and after paying on the customary dates the dues in kind which burdened their land. It must have been little, if anything."<sup>29)</sup> Similarly in cities "it was mainly for the rich, above all for the great establishments from churches to mansions maintained by bishops and princes, lesser priests and nobles, and some municipal authorities that craftsmen and artists produced commodities in larger quantities than before."<sup>30)</sup>

Although the potential economic surplus appropriated by the upper classes was thus quite sizeable <sup>31)</sup> the actual economic surplus generated in medieval

28) "Only when the first form of the division of society into classes appeared, only when slavery appeared, when a certain class of people, by concentrating on the crudest form of agricultural labor could produce a certain surplus, when this surplus was not absolutely essential for the most wretched existence of the slave and passed into the hands of the slave owner, when in this way the existence of this class of slave owners took firm root—then in order that it might take firm root it was essential that a state should appear." V. I. Lenin, *Marx, Engels, Marxism*, Moscow, 1947 pp. 430 ff.

29) Henri Pirenne, *Economic and Social History of Medieval Europe*, Routledge and Kegan Paul, London, 1936, p. 65.

30) John U. Nef, *War and Human Progress*, Routledge and Kegan Paul, London, 1950, p. 4.

31) "The surplus—whether small or great—is usually torn from the producers either by the government to which they are subject, or by individuals who by superior force or by availing themselves of religious or traditional feeling of subordination, have established themselves as lords of the soil." John Stuart Mill, *Principles of Political Economy*. D. Appleton Company, New York, 1888, p. 30.

societies and available for productive investment of any kind was extremely small. The difference between the potential and actual surplus was used for excess-consumption of the ruling class, for the maintenance of a vast ecclesiastic organization or for military enterprises, the objective of which was frequently to provide additional means for luxurious living and magnificent displays of the privileged few. To quote Pirenne again: ".....the early centuries of the Middle Ages seem to have been completely ignorant of the power of capital. They abound in wealthy landed proprietors, in rich monasteries, and we come upon hundreds of sanctuaries and treasure of which, supplied by the generosity of the nobles or the offerings of the faithful, crowds the altar with ornaments of gold or of solid silver. A considerable fortune is accumulated in the Church, but it is an idle fortune. The revenues which the landowners collect from their serfs or from their tenants are directed toward no economic purpose. They are scattered in alms,<sup>32)</sup> in the building of monuments, in the purchase of works of art, or of precious objects which could serve to increase the splendor of religious ceremonies. Wealth, capital, if one may so term it, is fixed motionless in the hands of an aristocracy, priestly or military."<sup>33)</sup>

The result was lack of means for "net investment" and consequently "a system with a strong bias in favor of maintaining given methods and relations in production."<sup>34)</sup> Combined with growth of population this economic stagnation led to decline rather than to growth of *per capita* output.

The transition from feudalism to capitalism represented a radical change in both the size of the eco-

32). To the extent to which alms have become an important element of mass consumption they represented "transfer payments" to be deducted from the potential economic surplus appropriated by the church. This was pointed out to me by Professor Simon Kuznets.

33) Henri Pirenne, "The Stages in the Social History of Capitalism." *The American Historical Review*, 1914, p. 500.

34) Paul M. Sweezy, "The Transition from Feudalism to Capitalism." *Science and Society*, Spring, 1950, p. 137.

economic surplus and the mode of its utilization. Classical economists saw in fact the *raison d'être* of the ascending bourgeois order in its providing for rapid economic progress by maximization and efficient utilization of the economic surplus. Indeed, in a well functioning capitalist society, the classical writers implied, the actual and potential economic surplus should merge into one. Competition among enterprises would assure maximum output and eliminate all waste and irrationality from the productive process. Say's law would see to it that apart from occasional "frictional disproportionalities" full employment is continuously maintained. Competition among workers would prevent wages from rising above the subsistence minimum and from eating into profits—the source of all economic surplus.<sup>35)</sup>

The elimination of the feudal lord as owner of the land and parasitic squanderer of the rent would prevent the wastage of the economic surplus on unproductive expenditures. Nor would there be much room in a fully competitive economy for unproductive workers other than those truly essential to the functioning of the competitive capitalist order and significantly contributing to the accumulation of capital. Large selling costs, major advertising expenses, excess capacities, legal or public relations departments do not enter the model of an economy thought of as composed of relatively small firms producing at the lowest possible cost more or less homogeneous, interchangeable products. True, some unproductive workers would necessarily remain in the economic system—landlords, bankers, brokers, merchants—but the economic surplus appropriated by them would also be in its bulk accumulated rather than consumed. In fact by encroaching upon the real income of the masses on whom they would shift some of the costs of their operations they would

35) "The natural price of labor is that price which is necessary to enable the laborers, one with another to subsist and to perpetuate their race, without either increase or diminution." David Ricardo, *op. cit.*, p. 53. Also: "If.....wages continued the same, the profits of manufacturers would remain the same, but if.....wages should rise.....then their profits would necessarily fall." *Idem.* p, 64.

actually contribute to capital formation rather than detract from it.<sup>36)</sup>

Yet one more condition would need to be satisfied for the maximum economic surplus to provide for the largest attainable rates of growth. That condition is frugality and will to invest on the part of the businessman. Once the aristocratic landlord has been deprived of sources of "unearned" income, or has himself turned into a capitalist—such frugality would remove the last pre-capitalist vestiges of excess consumption from the economic system. There appeared to be good reasons to expect this condition of economic growth to be satisfied. In the first place, the competitive mechanism would *force* businessmen to accumulate, since only by continuously plowing back their earnings in cost-reducing innovations could they hope to maintain themselves in the competitive struggle. Moreover, the maintenance of high rates of profit would provide all the necessary inducements to invest, unless diminishing returns in agriculture would continuously raise the real costs of labor's sustenance. But with this bogey removed by technological progress in agriculture nothing should stand in the way of a harmonious expansion of capital accumulation—at least until in the remote future the stock of capital would become so large as to reduce marginal returns on it to a level insufficient to overcome the "natural" reluctance to face risks concomitant with every investment.

Secondly, the rise of the members of the business class from humble origins to affluence and power was explained by their propensity to work hard and to save. It was judged as probable—on characterological grounds—that they would retain a way of life that has led them to spectacular successes. Thirdly, the advent of what Weber and Sombart have called later the "capitalist spirit"—to which, in fact, they ascribed the genesis of modern capitalism<sup>37)</sup>—

36) Similarly the bankers by providing bank credit would facilitate capital accumulation, partly by centralizing smaller savings, partly by creating saving via inflation.

37) Incidentally, the development of rational calculation and accountancy so much stressed by Weber and Sombart had been pointed out as an important



accompanied by the prevalence of puritan ethics had established a system of social values in which thriftiness and the drive to accumulate were elevated to the status of supreme merit and paramount virtue.

Thus the only issue that faced society if economic progress was to be assured, was the creation and preservation of conditions necessary for rapid accumulation of the actual economic surplus. That there should be insufficient outlets for profitable investment for the accumulated capital was hardly considered in an age in which not only ever new investment opportunities opened up at home, but the settlement of new continents appeared as a bottomless pit for investable funds.<sup>38)</sup>

Under such circumstances the role of the government was clearly circumscribed. It was to abstain from interfering with the formation of capital by refraining from collecting unnecessary tax revenues, by giving up meddling in social affairs and subsidizing the poor, by markedly reducing the number of unproductive workers maintained by resources that otherwise would form a part of the actual economic surplus.<sup>39)</sup> It could possibly be called upon

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factor in the growth of bourgeois culture by Marx as early as 1848. "The bourgeoisie is too enlightened, it calculates too well, to share the prejudices of the feudal lord who makes a display by the brilliance of his retinue. *The conditions of existence of the bourgeoisie compel it to calculate.*" *Wage Labor and Capital*, in Karl Marx and Friedrich Engels, *Selected Works*, Vol. I, Moscow, 1950, p. 91.

38) By 1900 European countries had invested in the United States alone  $3\frac{1}{2}$  billion dollars equaling the value of all equipment in American manufacturing industries and on all American farms. Gunther Stein, *The World the Dollar Built*, Dennis Dobson, London, 1952, p. 19.

39) "The clear and direct tendency of the poor laws.....is not, as the legislature benevolently intended, to amend the condition of the poor, but to deteriorate the condition of both poor and rich; instead of making the poor rich, they are calculated to make the rich poor: and whilst the present laws are in force, it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase till it has absorbed all the net revenue of the country....." David Ricardo, *op. cit.*, p. 81. The classical bourgeoisie's distaste for militarism and military spending was stressed by Schum-

to protect foreign markets, sources of supplies, and investments, but the need for such protection was expected to be small and in any case only sporadic. Needless to say, this—so hastily sketched—picture of the *modus operandi* of a competitive capitalist economy is at best a rather apologetic portrayal of reality. Yet matters bear even less resemblance to it in the advanced, monopolistic phase of capitalist development.

While the growth of large-scale enterprise and monopoly has strengthened and perfected to unprecedented powers the mechanisms for the generation of economic surplus, it has also seriously affected the conditions of its utilization. The attainment of a high level of industrialization in advanced capitalist countries has markedly narrowed down the opportunities for profitable investment.<sup>40)</sup> Consequently, in the words of Alvin H. Hansen, "The problem of our generation is above all, the problem of inadequate private investment outlets."<sup>41)</sup>

It is hardly relevant to point to the great number of useful projects that "could" be undertaken, and the completion of which would contribute to human welfare.<sup>42)</sup> What is crucial is that the evolution of the structure of the capitalist economy and the far-reaching changes in the nature of the investment process render their realization in the capitalist system increasingly difficult if not outright impossible.

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peter, *op. cit.*, p. 122 ff.

40) This simple formulation is suggested by an as yet unpublished essay by Paul M. Sweezy. Decline in the growth of population, closing of the frontier and other factors play a prominent role in the theory of "vanishing investment opportunities." Cf. A. H. Hansen's classical formulation of the doctrine in "Economic Progress and Declining Population Growth," *Readings in Business Cycle Theory*, The Blakiston Company, Philadelphia-Toronto, 1944.

41) *op. cit.*, p. 379.

42) Listing such enterprises that would be technologically indicated and socially desirable is the normal pastime of liberal technocrats and economists who are engaged in "planning" in a socio-political vacuum. The best examples perhaps are the articles by J. K. Galbraith in *The New York Times Magazine Section*, June 22, 1952, and in David Lilienthal's *Big Business, A New Era*, Harpers, New York, 1952, pp. 8 ff.

The economic factors impeding and retarding investment under conditions of monopoly (and oligopoly) have been widely discussed in the relevant literature.<sup>43)</sup> There is no need to go into the details of this controversy in the present context. Suffice it to say that economists of widely differing persuasions, while strongly disagreeing on the *causes* of inadequate private investment in advanced capitalist countries generally recognize the *fact* that under monopoly capitalism such investment normally fails to utilize the currently generated economic surplus.

Nor are the "purely economic" factors the only ones that obstruct and retard investment under monopoly capitalism. One should not lose sight of the socio-political setting of investment in the age of imperialism, wars, social and colonial revolutions. The growth of the labor movement in advanced capitalist countries combined with the spreading of "muck-raking" ideologies among the middle classes endangered in their position by the ascent of Big Business create a societal environment profoundly inimical to Big Business. What is perhaps even more important: the arrival on the historical stage of a socialist state with a well-functioning planned economy has proved beyond further dispute what socialists have been claiming for one-hundred years: a modern economic system can operate, develop, and improve *without capitalists*. The result is growing insecurity of the capitalist class, increasing consciousness of the impermanence of the existing social order, mounting fear of the social revolution. In such a "climate"—to borrow Schumpeter's thought and expression—the capitalist is reluctant to invest, to engage in long-run projects, to sacrifice his liquidity, to give up his ability to "run for cover" in case of emergency. It goes without saying that this "demoralization" of the capitalist class assumes different

proportions in different countries, and at different times. It is at its worst where the lability of the system is most pronounced either for geographical or historical reasons.

When intended investment falls short of the volume of the actual economic surplus, depression provides the automatic "correction" by reducing aggregate output and profits and by pushing the surplus down to the level of its utilization. When intended investment absorbs a larger share or all of the actual economic surplus, the expanded productive facilities, larger output and absolutely larger surplus in the next period recreate the problem of sufficient investment on a larger scale.<sup>44)</sup>

If, then, intended investment fails to reach the level of the actual economic surplus that would be generated under conditions of full employment—there are the following three possibilities for averting depression and unemployment. One is to increase mass consumption (as a *ratio* of total output), and thus to reduce the proportion of output constituting actual economic surplus. This could be accomplished by an increase in *real* wages, i. e. a reduction of profits. Such a course is not open, however, to an economic system in which individual capitalists seek to maximize their profits. It is a moot problem whether mass consumption has expanded proportionately or less than proportionately to the growth of total output in the capitalist age.<sup>45)</sup>

44) This is strictly speaking only true if the investment in the first period is directed towards productive plant and equipment. Investment in residential dwellings or in inventories may have no productivity-raising effect and thus aggravate the next period's problem not by increasing the volume of investable actual surplus but by reducing the outlets for future investment.

45) Marx suggests that the latter was the case: ".....although the enjoyments of the workers have risen, the social satisfaction that they give have fallen in comparison with the increased enjoyments of the capitalists, which are inaccessible to the worker, in comparison with the state of development of society in general." *Wage Labor and Capital*, Karl Marx and Friedrich Engels, *Selected Works*, Moscow, 1950, Vol. I, p. 87. On the other hand M. Kalecki notes that the share of national income going to manual labor was fairly constant over a period of some fifty years

43) Cf. Paul M. Sweezy, *op. cit.*, pp. 275 ff; Oscar Lange, *On the Economic Theory of Socialism*, The University of Minnesota Press, Minneapolis, 1938 pp. 114 f; Eysey D. Domar, *Investment, Losses, and Monopolies, Income, Employment and Public Policy*, W. W. Norton, New York, 1946, *passim*; J. K. Galbraith, *American Capitalism*, Houghton Mifflin, Boston, 1952; T. Scitovsky *Welfare and Competition*, Irwin, Homewood, Illinois, 1951, Chptr. XX and others.



In any case, individual capitalists cannot be expected to function as Santa Claus to their workers and buyers in order to increase mass consumption. What might be wholly rational from the standpoint of the capitalist economy as a whole would be suicidal if undertaken by individual capitalists.<sup>46)</sup>

The second possibility is shipping some of the actual economic surplus abroad. To be sure, such exports can provide an additional outlet for the overflowing economic surplus only if undertaken in exchange for gold or if the proceeds are invested abroad. If the exports are compensated for by imports, there is obviously no change in the total volume of domestically available surplus.<sup>47)</sup> Yet, since the world's total supply of gold is rather severely limited, and since for important economic and political considerations its value cannot be indefinitely raised, investment abroad is the principal vehicle for the disposal of economic surplus in foreign countries.

But foreign investment encounters obstacles that are, if anything, more formidable than those faced

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in Great Britain. Cf. his *Essays in the Theory of Economic Fluctuations*, Allen and Unwin, London, 1939, pp. 13-41—Needless to say that wages do not fully account for mass consumption; they may serve, however, as a satisfactory index of it.

46) In that sense labor organizations that by means of economic and political struggle succeed in increasing labor's share in total income perform a stabilizing function under monopoly capitalism, even if their endeavours are meeting with embittered resistance on the part of individual members or groups of the capitalist class, acting in accordance with their particular interests.

47) However even mere exchange of exports for imports may be of considerable importance to the capitalist economy. It may provide the indispensable physical assortment of consumption and investment goods; it may diversify the basket of consumer goods and thus increase consumption of those groups in society that are in the position to save; it may finally open outlets for new products and sources of cheaper (or better) raw materials and thus create opportunities for new investment. Nor should it be overlooked that the mere exchange of exports for imports, regardless of its significance for the economy as a whole, represents usually a source of large profits to the capitalists engaged in international trade and may, therefore, be energetically pushed by them.

by investment at home. While exceptionally attractive in terms of prospective (and actually earned) returns they are beset by a host of political and social uncertainties that greatly impair the individual capitalist's willingness to undertake foreign ventures without help or protection from his government—particularly under conditions of general political and social instability.

Consequently, "would-be" foreign investors bring powerful pressure to bear upon the government of an advanced capitalist country to create abroad by diplomatic and military means political and social conditions favorable to its capitalists' investment ventures, and to exercise its power to exclude other imperialist countries from the coveted foreign markets and outlets for investment. These pressures are re-enforced by business groups that are not themselves participating in capital exports but that are vitally interested in foreign sales. The latter groups usually exercise their influence in favor of governmental loans and grants to foreign countries so as to enable those countries to buy their merchandise.

It is quite clear that foreign investment not unlike domestic investment represents an only temporary relief from the pressures of uninvestable economic surplus. Unless it is lost abroad as a result of commercial mishaps or of political upsets, the returns from it (as well as its possible eventual repatriation) aggravate at a later date the problem of utilization of the currently generated actual economic surplus.

The third possibility is the reduction of the actual economic surplus through enlarged excess consumption on the part of the capitalist class, through expansion of unproductive labor, through multiplied waste and irrationality in the production and distribution system. It goes without saying that no individual capitalist could singly undertake such measures with the view to reducing society's actual economic surplus. This has to be imposed upon him by a general shift in institutions, mores, and values or done for him by society as a whole i. e. by the state.<sup>48)</sup>

Both have taken place under monopoly capitalism.

Conspicuous consumption of the capitalists,<sup>49)</sup> lavish outlays on corporate bureaucracy, lawyers, public relations experts, etc. have become an integral part of the folklore of monopolistic capitalism. In 1929 for every 100 engaged in commodity production in the United States, 74 were otherwise employed. In 1939, for every 100 in commodity production 87 were otherwise employed. And by 1949, for every 100 in commodity production 106 were otherwise employed.<sup>50)</sup> Similarly spending of vast sums on various "cultural" and political purposes on the part of giant corporations designed to bribe "public opinion" in favor of monopoly capital absorbs growing portions of corporate profits.<sup>51)</sup>

But the most prodigious outlet for economic surplus is of governmental spending. This spending has assumed various forms—the principal opportunity for

48) As Marx has foreseen "bourgeois society reproduces in its own form everything against which it has fought in feudal or absolutist form." *Theories of Surplus Value*, p. 176.

49) "At the historical dawn of capitalist production—and every capitalist upstart has personally to go through this historical stage—avarice and the desire to get rich, are the ruling passion.....When a certain stage of development has been reached, a conventional degree of prodigality which is also an exhibition of wealth, and consequently a source of credit, becomes a business necessity to the 'unfortunate' capitalist. Luxury enters into capital's expenses of representation.....Although, therefore, the prodigality of the capitalist never possesses the *bona-fide* character of the open-handed feudal lord's prodigality, but on the contrary has always lurking behind it the most sordid avarice and the most anxious calculation, yet his expenditure grows with his accumulation....." Karl Marx, *Capital*, Vol. I, p. 650. Paul M. Sweezy in his *Theory of Capitalist Development*, p. 81 rightly draws attention to the fact that in this statement Marx has anticipated much of what was later expounded by Thorstein Veblen.

50) Victor Perlo, *American Imperialism*, International Publishers, New York, 1951, p. 226. A note on the same page explains that "engaged in commodity production" includes employees in agriculture, mining, construction, manufacturing, transportation, communication, public utilities as well as farm operators.

51) Cf. J. A. Hobson, *Imperialism, A Study*, Allen and Unwin, London, 1948, p. 96.

its increase is offered by the development of imperialism. Regardless of the economic value or strategic significance of the territories and interests abroad that "need" to be protected, the military establishment required for such protection becomes an invaluable end in itself as a broad outlet for the economic surplus.<sup>52)</sup> Compared with military and related spending all other items in the government budget are of secondary importance. Neither the vastly expanded bureaucracy nor the vastly advertised welfare expenditures come near the spending on military purposes.<sup>53)</sup>

Two conclusions, the importance of which hardly needs stressing, emerge from this brief sketch of the mode of utilization of the economic surplus under monopolistic capitalism. *First*, greatly at variance with the historical experience and the theoretical model of capitalism's competitive youth—in its advanced monopolistic phase the capitalist economy is incapable of utilizing society's prodigious economic surplus for purposes of economic growth. A vast expansion of excess consumption on the part of the capitalist class, of unproductive labor of all kinds, of waste and irrationality becomes the indispensable prerequisite of economic and political stability. *Secondly*, while the power of individual firms to appropriate economic surplus has reached staggering proportions—neither the required volume of investment nor its alternatives: increase in mass consumption, capital exports or multiplication of unproductive labor and waste can be organized by profit maximizing individual capitalist enterprises *themselves*. Although some of the "necessary" destruction of the economic surplus is being accomplished by a purposefully manipulated accommodation of society to the "culture" of monopolistic capitalism—the *bulk of the task has to be assigned to the state*.<sup>54)</sup> It is the

52) Cf. J. A. Hobson, *op. cit.*, Ch. VII

53) For the reasons preventing the government in a capitalist society from channeling the economic surplus into investment in productive enterprise or into mass consumption cf. Paul M. Sweezy, *op. cit.*, pp. 348 ff. and Paul A. Baran, *National Economic Planning in; A Survey of Contemporary Economics*, Vol. II (B. F. Haley, ed.) Irwin, Homewood, Illinois, 1952 pp. 355 ff.



paramount importance of the scope and character of the governmental disposal over a large share of society's economic surplus that renders it imperative to the ruling class to maintain a tight control over the policies and machinery of the state. Herefrom stems the decisive force driving toward the transformation of bourgeois democracy into fascist or semi-fascist political institutions.<sup>55)</sup>

### III

If the conditions of economic growth that have prevailed under competitive capitalism have largely disintegrated under advanced capitalism, they have never materialized in the countries of backward capitalism. As Lenin has stressed, capitalism has entered most underdeveloped countries the "Prussian way"—not through the growth of small, competitive business but through transfer from abroad of advanced monopolistic enterprise. Accordingly capitalist development in these countries was not accompanied by a rise of the bourgeoisie and by an overthrow of the feudal domination of society but rather by an accommodation between the newly arrived monopolistic business and the socially and politically firmly entrenched landed gentry.

Consequently the only "classical" requirement for growth that is fully satisfied in the underdeveloped countries is the maintenance of living standards of the population at or markedly below subsistence minima. Yet there is neither vigorous competition of ambitious businessmen pressing for increase of output and rationalization of production, nor is there accumulation of the economic surplus in the hands of "classical" capitalists forced by the competitive process and the *mores* of a bourgeois society to plow back as much as possible in the expansion of their businesses.

The result is that output in underdeveloped

54) The "New Economics" developed by J. M. Keynes—the Ricardo of monopoly capitalism—is essentially a brilliant theoretic rationalization of this new function of the state under conditions of advanced capitalism.

55) For a somewhat more expanded treatment of this point cf. "Fascism in America," in *Monthly Review* (Leo Huberman and Paul M. Sweezy, ed.) Oct., 1952.

countries is much below the attainable level with agriculture operating in a "ante-deluvian" fashion, and with waste and irrationality in industry shielded by monopoly, high tariffs, and other protective devices.<sup>56)</sup>

While thus the *potential* economic surplus is very large, the *actual* economic surplus, although representing a sizeable *proportion* of total output remains rather low in absolute terms. A large share of the potential surplus goes to semi-feudal landlords who spend much of their revenue on excess consumption and the maintenance of a multitude of unproductive laborers. Another big slice is acquired by capitalists who attempting to preserve their monopolistic positions and haunted by political insecurity are loathe to sink their funds in long-term enterprises. They prefer risky commercial operations promising large and rapid returns or the accumulation of emergency reserves sheltered abroad from domestic and social hazards and providing lucrative hedges against inflation. Moreover, in order to be worthy partners of the politically and socially dominant coalition of the property-owning classes, and to be able to secure from it the benefits and privileges indispensable for the conduct of business, the capitalists in backward countries have to emulate in their mode of living the "old" and "prominent" families, have to engage in conspicuous consumption, erect sumptuous residences and acquire landed estates.

Nor do the landed gentry and the capitalists in underdeveloped countries account alone for the excess consumption, the unproductive labor and waste which drastically reduce the magnitude of the actual economic surplus. Much is absorbed by the corrupt governments of the backward nations that use a substantial quantity of resources for the maintenance of elaborate and inefficient bureaucratic and military establishments. Yet while under condition

56) Many "infant industry" tariffs eminently rational and useful under conditions of growth have turned in underdeveloped countries into "senile industry" crutches protecting monopolistic business from the sharp winds of foreign competition that might force them to modernize and rationalize their methods of production.

of advanced capitalism the governmentally organized waste and unproductive labor remove some of the *overflow* of the actual economic surplus and provide thus for a measure of economic stability, the squandering of the economic surplus on the part of governments in backward countries represents a major drain on their scarce resources markedly reducing their possibilities of economic development. It fulfills, however, an "indispensable" political function: without the sprawling government bureaucracy, without the vast military establishment there would be no way of systematically bribing important strata of the intelligentsia, of maintaining a relatively well paid Pretorian guard dedicated to the defense of the *status quo*, of keeping up an apparatus of oppression assuring the continuity of the existing social order.

Of varying size, but nearly everywhere considerable, are the parts of the actual economic surplus removed abroad on account of dividends and interest collected by foreign absentee owners of industrial, agricultural, and mining enterprises in underdeveloped countries.<sup>57)</sup>

The social and political structure of the backward capitalist countries that is responsible for the mode of utilization of their economic surplus determines thus the volume of the actual economic surplus available for net investment. The frequently registered (and deplored) lack of saving in underdeveloped countries, observable in spite of glaring inequality of income is caused not merely by the relative smallness of aggregate output, but primarily by large excess consumption on the part of the property-owning classes, by a superabundance of unproductive labor maintained by society's meagre resources and by a staggering amount of waste and irrationality in the productive and distributive processes. Although other factors have undoubtedly much to do with

the inadequacy of the volume and structure of net investment that takes place in underdeveloped areas (lack of external economies is the most conspicuous one)—the waste of a large portion of economic surplus is probably the crucial cause of their economic and social stagnation.<sup>58)</sup>

The remarkable success of the reconstruction and development effort of the countries of Eastern and South-Eastern Europe and China that have entered the road to socialism after the war is primarily due to an effective mobilization of these countries' potential economic surplus.<sup>59)</sup> The elimination of the excess consumption of the former ruling class, the transfer of numerous unproductive workers to socially desirable occupations, the far-reaching rationalization of the productive apparatus, the realization of economies of scale, the disappearance of capital flight, of dividend and interest transfers to foreigners, the purposeful application of the principle of comparative advantages—all placed at the disposal of society a vast pool of resources available for useful employment.

Not that in planned economies even as relatively mature as in the U. S. S. R. not to speak of the more recent arrivals in the socialist camp—the *actual* economic surplus can be fully equated with the *potential* surplus. Such an equation is neither possible nor desirable, since certain elements of the potential economic surplus are essential to the welfare and progress of society and may have to be expanded rather than contracted in a socialist society. As Marx predicted, the part of the total product ".....which is destined for the communal satisfaction of needs such as schools, health services, etc.....is.....from the outset.....considerably increased in comparison with present-day society and it increases in proportion as the new society develops....." while ".....the general costs of administration not belonging to production .....will from the outset, be very considerably re-

57) The payments to foreign investors are in most cases out of proportion to the original increase of investable funds provided by capital imports. "For example, the average rate of return on United States foreign investments in 1949 was about 17 per cent .....Many underdeveloped countries feel that this is too high a price to pay for capital." *Measures for the Economic Development of Under-Developed Countries*. (United Nations, 1951), par. 255.

58) Cf. *Measures for the Economic Development of Under-Developed Countries*, passim; also Paul A. Baran, *American Economic Review* Suppl. May, 1951, pp. 355 ff. and *Manchester School*, January, 1952.

59) Cf. Doreen Warriner, *Revolution in Eastern Europe*, Turnstile Press, London, 1950.



stricted in comparison with present-day society and it diminishes in proportion as the new society develops."<sup>60</sup>) At the same time the devotion of a considerable volume of resources to the maintenance of a state apparatus, of a military establishment, etc. that is inevitable as long as the security of the socialist order is threatened from within and/or from without, prevents a further reaching reallocation of the potential economic surplus either by increasing the actual economic surplus or by expanding collective or individual consumption.<sup>61</sup>)

Only under conditions of a fully established socialist order in which both the external and internal dangers to society have disappeared and in which unproductive labor is devoted exclusively to the satisfaction of society's genuine non-material needs, in which waste and irrationality is banned from the productive and distributive process and in which the decision on the allocation of output as between current consumption and investment is made in the light of the community's requirements—would the actual economic surplus coincide with the planned economic surplus and correspond to society's conscious decision on the rate of the desired growth.

It should be stressed that the *maximization* of the actual economic surplus is by no means an objective desirable *per se*. What is a matter of urgency for underdeveloped countries and even for advanced countries is the mobilization of the potential economic surplus for the purposes of expanded investment and/or essential consumption. The distribution of aggregate output as between consumption and surplus is determined under capitalism by the prevailing socio-economic relations; under socialism it is "discretionary"—allowing for the time lags inevitable in the process of reallocation of resources. Where,

60) Karl Marx, *Critique of the Gotha Program*, Karl Marx and Friedrich Engels, *Selected Works*, Vol. II, Moscow, 1950, pp. 20 ff.

61) On the problem of the "withering away" of the state in a communist society cf. Joseph Stalin, *Problems of Leninism*, eleventh edition, Moscow, 1939, p. 606.

as in many underdeveloped countries, even that economic surplus that could be obtained under conditions of maximum obtainable output and "rock-bottom" consumption is small, the course of wisdom may be to refrain from immediately increasing consumption standards. The addition to *per capita* consumption resulting from a distribution of what used to be potential economic surplus may be negligible, while the investment of all obtainable economic surplus in productive enterprise may lead to a large increase of total output at a later date.<sup>62</sup>)

Yet in all countries a rational utilization of the economic surplus is an indispensable prerequisite of economic growth. The class appropriating and administering society's economic surplus that has failed to live up to its function of investing it productively and of providing thus for the development of productive resources has been sooner or later divested of this "trust" by overwhelming social forces. The feudal class that was unable to discharge the function of propelling economic development by a productive utilization of the economic surplus was supplanted by the more efficient and rational bourgeoisie. Where the capitalist class fails to make full and rational use of the prodigious economic surplus that it is in the position to appropriate, where it causes wars, destruction and undescrivable misery in its drive to dispose of the burdensome economic surplus, and where it charges for such investment activities as it performs exorbitant dues in form of excess consumption, extravagant waste, capital flights, and the like—society tends to assume the control over its economic surplus itself and to entrust its utilization to its planning organs.

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62) Such a policy will probably be indicated everywhere where rapid population growth tends to reduce continuously the *per capita* share of aggregate output, where, in other words, total output has to grow very fast if it is to overcompensate the increase in the population.