

Megnad Desai

Marx's Revenge: The Resurgence of Capitalism and the Death of Statist Socialism

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Desai's argument in *Marx's Revenge* is that, contrary to a century-long misunderstanding, Marx's mature economic theory does *not* predict the collapse of capitalism, but instead emphasizes the productive dynamism of capitalism. According to Desai's Marx, although capitalism is inherently unstable and there will always be boom-bust cycles, capitalism will always recover more or less quickly from the busts, and overall capitalism remains the most productive economic system in history, by far. "Marx's revenge" for this misunderstanding is that capitalism is once again, at the end of the 20th century and the beginning of the 21st century, demonstrating its dynamism, its ability to recover from downturns, and its superiority over all other economic systems.

This book is not as much about Marx as the title suggests. It presents a sweeping panorama of the history of capitalism and the history of economics over the last 150 years. It traces the rise and fall of the theory and practice of government intervention in the market (including Soviet type planned economies), and is enthusiastic about the return to the market in recent decades. Desai argues that this will allow capitalism to develop to the fullest extent possible, thereby increasing productivity and reducing poverty, even though also with continued inequality and cycles. Maybe some day capitalism will exhaust its productive potential and socialism will replace it, but that day is a very long way off, according to Desai.

This review will focus more on what Desai has to say about Marx's theory. To begin with, Desai rightly emphasizes that Marx's theory of profit is the centerpiece of his theory of capitalism. Profit was the great unanswered question of classical economics, and it has become the great unasked question in neoclassical economics (since the capital critique has never been answered, the subject is just being quietly dropped; just take a look at any graduate

microeconomics textbook). Thus, Marx's theory is the only theory in the history of economics to provide a coherent theory of profit derived from a general theory of value.

Desai also correctly describes Marx's theory as an "exploitation" theory of profit, i.e. profit is produced by the exploitation of workers (or by the surplus labor of workers). From this theory, it follows that there are inherent conflicts of interest between capitalists and workers in a capitalist economy - conflicts over wages, and over the length of the working day, over the intensity of labor, etc. However, Desai suggests that there is also a *harmony* of interests between capitalists and workers, in the sense that high profit produces high investment and thus high employment (and low unemployment), so that high profit benefits both capitalists and workers. Desai calls this harmony of interests "turning Marx on his head". Desai argues that many workers have come to recognize this harmony of interests in high profit, especially in this age of globalization and high capital mobility, and are more willing to make concessions on wages in order to keep their jobs. However, if high profit requires lower wages (or a higher intensity of labor), then this harmony of interests is very limited and still wrought with conflict. Indeed in recent decades of low profitability (see below) and high capital mobility, workers all over the world have been faced with a Sophie's choice: accept lower wages or lose your job. This situation is not so much a harmony of interests as it is the increased power of capitalists in the ongoing class conflict between capitalists and workers.

Desai also emphasizes Marx's "keen awareness" of the technological dynamism of capitalism, but surprisingly he does not connect this dynamism with Marx's theory of profit. He does not appear to realize that Marx was not only "keenly aware" of the technological dynamism of capitalism, but his theory provides a rigorous explanation of this dynamism (in Part 4 of Volume 1 of *Capital*), and this explanation is derived from Marx's "exploitation" theory of profit. Once limits to the working day are established, then the main way to increase surplus labor, and thus to increase profit, is to reduce the necessary labor portion of the working day through technological change. Once again, Marx's theory is the only economic theory to provide such a theoretical explanation on the inherent technological dynamism of capitalism on the basis

of its fundamental theory of value and profit. All other economic theories either assume technology is constant or introduce technological change as an exogenous factor. (Schumpeter's theory comes the closest, but his theory of profit is a disequilibrium theory and is not based on any general theory of value). Desai recommends in general that we should pay more attention to Marx's mature economic theory in *Capital* than to his youthful *Communist Manifesto* (and I agree), but Desai's discussion of this crucial aspect of Marx's theory is similar to that of the *Manifesto* ("keen awareness"), rather than that of *Capital* (theoretical deduction).

As already mentioned, Desai argues that Marx's theory does not predict the collapse and downfall of capitalism. According to Desai, there are three different strands of Marx's theory of growth and cycles in *Capital*. The first strand is a "wage-push profit squeeze" theory in Chapter 25 of Volume 1, which explains the ups and downs of cycles, but does not predict a long-run decline in the rate of profit and worsening economic crises. The second strand is based on Marx's analysis of the "reproduction schemes" in Part 3 of Volume 2, which leads to the conclusion that never-ending growth, without cycles, is possible in capitalism. The third strand is the "falling rate of profit" theory, due to labor-saving technological change that increases the composition of capital, presented in Part 3 of Volume 3. This third strand might appear to predict the collapse of capitalism, but Desai emphasizes that Marx also included "counter-tendencies", so that the falling rate of profit is only a tendency and not a definite prediction. And Marx's theory does not conclude that the rate of profit will necessarily decline over the secular long-run and lead to the collapse and downfall of capitalism, but only that the rate of profit will decline in cyclical upturns which will lead to cyclical downturns.

I don't think this is an accurate portrayal of Marx's theory of growth and cycles. The first two strands are not really Marx's theories of capitalist growth and cycles. The clearest evidence of this is that both of these two strands *assume no change in technology*. These analyses have other purposes besides providing a theory of the dynamics of capitalism. The purpose of Section 1 of Chapter 25 is to argue that, no matter how favorable the conditions might be for increasing wages, there are always limits to these increases, which capitalism

automatically imposes. And the main purpose of the reproduction schemes is to criticize “Smith’s dogma”, according to which the total price of commodities can be entirely resolved into wages + profit + rent, with no component for the replacement of constant capital. Instead, Marx’s theory of growth and cycles is based on Desai’s third strand - the falling rate of profit. And, while it is true that Marx’s theory of the falling rate of profit does not predict the collapse of capitalism, it does lead to the conclusion that recurring depressions are inevitable in capitalism.

Desai seems to think that this conclusion of Marx’s theory is no longer true, due to the innovation of Keynesian economic policies in the 20th century. However, Desai does not discuss what Marx’s theory itself implies about the likely effectiveness of these Keynesian policies. In this regard, he ignores the pioneering work of Paul Mattick (one of the most important 20th century Marxists), who argued in the 1950s and 1960s (i.e. long before anyone else, in the heyday of Keynesian economics), on the basis of Marx’s theory, that Keynesian policies cannot provide a permanent solution to the problem of depressions in capitalism, because these policies do not increase the rate of profit, even though these policies may be able to give the economy a temporary boost. (Mattick’s main book is *Marx and Keynes: The Limits of the Mixed Economy*, Porter Sargent, 1969). Desai himself mentions that the labor of government employees is “unproductive labor” in the sense that it does not produce profit. Mattick argued further that government spending of all kinds has to be paid for out of taxes or borrowing, at least a part of which has to come out of profit, so that increased government spending exacerbates a shortage of profit, rather than solves it.

Desai explains the stagflation of the 1970s and 1980s on the basis of Marx’s theory, as the result of a very significant decline in the rate of profit in the 1960s and early 1970s (roughly 50%). The falling rate of profit caused both higher unemployment (as business investment was reduced) and also higher inflation (as businesses tried to restore their rate of profit by increasing prices as fast as they could). The decline in the rate of profit is explained by the “profit squeeze” interpretation of Marx’s theory, citing especially the work of Glyn and Sutcliffe, according to

which the decline in the rate of profit was caused by lower unemployment that enabled workers to win faster wage increases.

Unfortunately, Desai does not examine what has happened to the rate of profit since the 1970s. He seems to suggest, by emphasizing the recent “resurgence” of capitalism, that the rate of profit has been fully restored to previous levels, as a result of the business and government offensive of the 1980s and 1990s, which has resulted in almost no increase of real wages since the 1970s (i.e. not much “resurgence” for workers). However, the alarming fact (at least for the US and I think generally), is that the rate of profit has not increased significantly, in spite the stagnant real wages. The rate of profit in the US has recovered less than a quarter of the prior decline, so that the rate of profit today remains about 40% below its early postwar peaks.

This lack of a substantial increase in the rate of profit since the 1970s cannot be explained by the “profit squeeze” theory of stagflation. If the prior decline in the rate of profit was caused by lower unemployment and higher real wages, then surely the last two decades of higher unemployment and almost no increase of real wages should have fully restored the rate of profit. But that has not happened. I have presented in this journal an explanation, based on Marx’s theory, of this failure of the rate of profit to increase, in spite of stagnant real wages and a rising rate of surplus-value (see “The Rate of Profit and the Future of Capitalism,” *Review of Radical Political Economics*, 29:4). According to this explanation, the two main causes of the prior decline in the rate of profit were: (1) labor-saving technological change which increased the composition of capital, and (2) an increase in the ratio of unproductive labor to productive (where unproductive labor here refers to labor employed in circulation or supervision activities, which according to Marx’s theory do not produce profit). These are the same two reasons why the rate of profit has increased so little in recent decades, in spite of stagnant real wages: continued increases in the composition of capital and the ratio of unproductive labor to productive labor have mostly offset the increase in the rate of surplus-value and thereby limited the increase in the rate of profit.

This limited increase in the rate of profit suggests that the stagflation of recent decades is likely to continue, and the worst may be yet to come. At best, the still low rate of profit will continue to have a negative effect on business investment, and will also continue to exert downward pressure on wages and upward pressure on prices, so that unemployment will remain high and real wage growth will remain low. At worst, the next downturn could cause more widespread bankruptcies among both businesses and households, because the current debt levels of both businesses and households are at all-time historic highs, by a considerable margin. This rapid increase of private debt in recent decades (which Desai does not mention) has made possible at least a tolerable rate of growth, but it has also left the economy more vulnerable, to an unprecedented degree, to another debt-deflation depression.

Therefore, Marx's theory suggests that Desai's "resurgence" of capitalism is likely to be very short-lived. Indeed, this "resurgence" already looks much less impressive today (Fall 2002) than in the heady days of the late 1990s, when this book was written. And Marx's theory suggests that the worst may be yet to come. "Marx's revenge" might be on Desai himself, and it could happen soon.

Fred Moseley