

Over-accumulation, Rising Costs and 'Unproductive' Labour: The Relevance of the Classic Stationary State Issue for Developed Countries

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Abstract

The current crisis takes place within a long downturn. Forty years after publication of the Meadows report, new debates on the future of growth are emerging. The aim of this paper is to contribute to the general discussion on the prospects for economic growth in rich countries by stressing the relevance of some theoretical insights made by classical economists about the end of economic expansion. We focus on three key mechanisms related to contemporary economic analysis: overaccumulation; rising costs of accumulation; and the productive and unproductive labour and consumption balance.

Key-Words

Stationary state, Long downturn, Smith, Marx, Overaccumulation, Crisis



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Introduction

The current crisis takes place within a long downturn. Forty years after the Meadows report, new debates are emerging on the future of growth. For example, in a report on the world economy, *The Economist* (2010, p. 1) warned that 'the next few years could be defined as much by the stagnation of the West as by the emergence of the rest', adding that a reason 'to worry about stagnation has to do with slowing supply'. These debates need to be embedded in an analysis of the recent trends in capitalism. Various heterodox theories classify the current crisis as a 'big' crisis, which is revealing of the contradictions in the national and international arrangements designed to overcome the previous crisis in the 1970s (for a review see Durand & Légé, 2010). However, it also suggests the existence of underlying trends that could hinder the accumulation prospects for contemporary developed economies. The present paper is an attempt to examine these interpretations more closely using a classical lens.

What is the point of applying the old classical political economy to discuss the evolution of rich economies in the 21st century? It is that the classic stationary state issue is echoed in some contemporary preoccupations. For example, the arrangement designed to resolve the 1970s crisis did not prevent a decline of system dynamics. Since the 'Golden Age' (Marglin & Schor, 1990), developed economies have lost momentum: both production growth rates (graph 1: GDP growth) and investment rates (graph 2: Investment in % of GDP) have declined, facts that are consistent with a slowdown in capital accumulation (graph 3: Growth of gross capital formation). It is now evident that, in the United States, the New Economy has not deflected the downward trend in the growth rate of the stock of fixed capital of non-financial corporations: 'In spite of the ephemeral recovery during the second half of the 1990s, the rates prevailing during the neoliberal decades appear consistently inferior to this earlier level, with a downward trend' (Duménil & Lévy, 2010, p. 151-2).

This decline is not just an empirical issue, it is also a theoretical one and this paper contributes to the general discussion on the prospects for economic growth in rich countries by stressing the relevance of some of the theoretical insights from classical economists about the end of economic expansion. An exhaustive discussion of all the classical arguments on this topic is beyond the scope of this paper; we focus instead on three key mechanisms: overaccumulation, rising costs of accumulation, and the balance between productive and unproductive labour and consumption. Consequently, some crucial issues, such as the widely discussed role of demographic trends, are virtually ignored.

Section 1 examines how the capital accumulation slowdown can be interpreted as a sign of overaccumulation through the destructive impact of competition. This phenomenon was highlighted by Smith and discussed extensively by Marx. We then turn to the rising costs of accumulation and the exhaustion of what Karl Marx calls 'the original sources of all wealth' (Section 2). Contemporary concern over the environment is reminiscent of the classical preoccupation with the limits on growth due to the consequences of decreasing agricultural returns. Moreover, transformations to the scope of the division of labour in rich countries based on the rise of anthropogenetic services, characterized by limited potential productivity improvements, echoes the classical debates on the distinction between productive and unproductive labour (section 3). Section 4 summarizes our arguments and refers to the current situation in relation to the main counter-tendencies identified by classical theory –improvements to production and international trade. We stress the relevance of these elements to the contemporary literature and show how they can inform economic policy debates.

1. Smithian over-accumulation and the transformation of competition

Free market advocates use the invisible hand metaphor optimistically, but Adam Smith was 'both the Prophet and Cassandra of commercialism' (Alvey, 2003, p. 294). Section 1.1 recalls Smith's prospect of running down into a stationary state and Marx's ambivalent reception of this idea. Section 1.2 explains why, in a Marxist perspective, Hilferding argued that, in certain specific historical conditions, competition can hinder accumulation. Section 1.3 examines this issue in the neoliberal context.

1.1. Smith on the stationary state and Marx's reading of Smith

According to Smith, real wealth is the annual product of land and labour. Capital accumulation increases the number of those who are employed in useful labour and enhances their 'productive power' by extending the division of labour. Thus, Smith describes a process that enhances the material conditions for the greatest number. Nevertheless, he is worried about the fragility of growth and some scholars point to the 'profound pessimism' concealed within his *Wealth of Nations* (Heilbroner, 1973, p. 243; Meek, 1977, p. 13).

The term 'stationary state' first appeared at the end of Chapter VII. Smith announces that in the following chapter ('On wages') he will study how the advancing, stationary or declining state of the society affects the circumstances that determine wage rates. In a wealthy country that has for long been stationary, 'we must not expect to find the wages of labour very high' warns Smith (1776, vol. 1 p. 89) in Chapter VIII. Indeed, 'it is not the actual greatness of national wealth, but its continual increase, which occasions a rise in wages of labour' (*ibid.*, p. 87). Thus, 'the scanty maintenance of the labouring poor is the natural symptom that things are at a stand' (*ibid.*, p. 91). Only a 'progressive state' is desirable because it constitutes 'the cheerful and the hearty state to all the different orders of the society'; foremost 'the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable' (*ibid.*, p. 99).

In the chapter on wages, Smith introduces the idea that a stationary state might be the outcome of a progressive state. He maintains this idea throughout all six editions of the *Wealth of Nations*. On the one hand, growth produces a rise in real wages. 'It is not the money price of labour only, but its real recompense, which has augmented' (*ibid.*, p. 96). On the other hand, growth runs out of steam because it exhausts the accumulation process. This is the 'paradox of progress' laid out by Heilbroner [1]. But how does a stationary state stem from a progressive one? Heilbroner admits that 'nowhere does Smith actually explain the mechanism that leads him to the conclusions so unequivocally spelled out', but he considers that the underlying explanation might be demographic (Heilbroner, 1973, p. 249-50). Without disputing this interpretation, we would stress three elements of Smith's economic outline. First, in Chapter XIX entitled 'Of the Profits of Stock', Smith (1776, vol.1, p. 108) states that the fall in profit is the effect of trade prosperity or accumulation: 'When profit diminishes, merchants are very apt to complain that trade decays; though the

diminution of profit is the natural effect of its prosperity, or of a greater stock being employed in it than before.'

Second, Smith provides an explanation of this long-term inverse relationship between profit and growth of capital stock: for a given 'soil and climate' and a given 'situation with respect to other countries' the country can become 'fully stocked'. This means that there is a limit to the accumulation of capital; hence, low profit is associated with competition between capitals:

In a country which had acquired that full complement of riches which the nature of its soil and climate, and its situation with respect to other countries, allowed it to acquire; which could, therefore, advance no further, and which was not going backwards, both the wages of labour and the profits of stock would probably be very low.[...] in a country fully stocked in proportion to all the business it had to transact, as great a quantity of stock would be employed in every particular branch as the nature and extent would admit. The competition, therefore, would everywhere be as great, and consequently the ordinary profit as low as possible. (*ibid.*, p. 108).

Third, if extension to foreign markets here seems likely to postpone the decrease in profits, it also brings a new threat. In a rarely quoted extract from Book III ('Of the different Progress of Opulence in different Nations'), Smith explains that in the long run an increase in demand induces intensification of competition and innovations, which reduce prices:

The increase of demand, besides, though in the beginning it may sometimes raise the price of goods, never fails to lower it in the long run. It encourages production, and thereby increases the competition of the producers, who, in order to undersell one another, have recourse to new divisions of labour and new improvements of art, which might never otherwise have been thought of. (*ibid.*, vol. II, p. 748)

Here the destructive nature of competition is related to a consequence of capital over-accumulation caused by expansion of the market.

Marx highlighted and analysed Smith's pessimism. As Ronald Meek (1977, p. 9) puts it, Marx's quoting of Smith in the *1844 Manuscripts* 'have certain *relatively* critical and pessimistic implications'. A few years later, in his *Outlines of the Critique of Political Economy*, Marx examines Smith's opinions on the stationary state:

A. Smith explained the fall of the rate of profit, as capital grows, by the competition among capitals [...] Smith's phrase is correct to the extent that only in competition – the action of capital upon capital – are the inherent laws of capital, its tendencies, realized. But it is false in the sense in which he understands it, as if competition imposed laws on capital from the outside, laws not its own [...] Competition executes the inner laws of capital; makes them into compulsory laws towards the individual capital, but it does not invent them. It realizes them. (Marx 1857, p. 404).

Marx tries to encompass Smith's narrow view. Smith's idea 'is false', but once an important turn has been done concerning the method, it 'is correct'. To Marx, laws of capital cannot be explained simply as the results of competition. In the third volume of *Capital*, he describes the law of over-accumulation (or accelerated accumulation) as the inability to get a high profit rate: 'A fall in the rate of profit and accelerated accumulation are different expressions of the same process only in so far as both reflect the development of productiveness. [...] This accelerates accumulation with regard to mass, although the rate of accumulation falls with the rate of profit' (Marx, 1894, p. 166). Marx also explains that 'the same causes that bring about a tendency for the general rate of profit to fall necessitate an accelerated accumulation of capital', but as 'everything appears reversed in competition' (Marx, 1894, p.155) some merchants attribute a fall in profit to the expansion of capital. Hence, in Marx's view, competition is not the fundamental cause of over-accumulation, but the agent that executes the laws of capitalist production. Competitive pressure constrains individual capitalists to invest in order to adopt the more modern productive techniques that lead to an increasing capital intensity of production and then a decrease in the profit rate due to a rise in the organic composition of capital.

However, as we show below, in a Marxian framework the evolution of competition forms can hinder accumulation if it impedes the regulating role of profit rate. Indeed, some specific configurations of competition may lead to a persistent lower profit rate in certain areas.

1.2. The evolution of competition can hinder accumulation

According to Marx (1857, p. 210) 'Capital exists and can only exist as many capitals, and its self-determination therefore appears as their reciprocal interaction'. The struggle among individual capitals is thus a necessary moment in order to understand the dialectic unity of capital (1894, p. 19). How does competition execute the inner laws? According to Marx, 'aside from unessential, incidental and mutually compensating distinctions, differences in the average rate of profit in the various branches of industry do not exist in reality, and could not exist without abolishing the entire system of capitalist production' (*ibid.*, p. 113). This is a strong statement which is consistent with an analytical framework in which profit rate exerts a key regulating role (Dockès & Rosier, 1983, p. 43).

As David Ricardo (1817, p. 49) noted, capital mobility does not ensure a perfect equalization of profit rate because a capitalist may be 'willing to forego a part of his money profit, in consideration of the security, cleanliness, ease, or any other real or fancied advantage which one employment may possess over another'. Yet, profits 'would probably continue permanently with that relative difference and with that difference only'. Marx (1894, p. 138) describes the equalization of profit rates as a permanent process, an 'incessant outflow and influx', and Marxist economists insist on this 'turbulent equalization' (Shaikh, 2008).

From a historical point of view, Marx (1894, p. 138) admits that the equalization process succeeds 'to a greater or lesser degree, depending on the extent of capitalist development in the given nation'. Duménil, Glick and Lévy (2001, p. 72) are right when they point out that '[for Marx, as well as Smith and Ricardo], competition is efficient in allocating capital among industries, thereby bringing about a uniform profit rate. This mechanism is decentralized, it occurs within disequilibrium, and adjustments are made *ex-post*'. Indeed, as the capitalist mode of production is developing, competition annihilates the extra profit by spreading the new labour processes and the technical innovations throughout the whole branch (Marx, 1894, p. 179). But the equalization of profit rate across all industries requires 'a higher development of capitalist production' (*ibid.*, p. 130). Thus, when individual capitalists confront one another, 'only as an inner

law, vis-a-vis the individual agents, as a blind law of Nature, does the law of value exert its influence here and maintain the social equilibrium of production amidst its accidental fluctuations' (*ibid.*, p. 607).

Departing from Marx's position concerning the historical evolution of capitalism, Rudolf Hilferding, in his book on *Finance Capital* (1910), tries to provide a general explanation of the more and more numerous cases when competition cannot exert the inner law that brings a uniform profit rate among capitals. Evidence from the German steel industry attests to the fact that technical progress produces a rise in the organic composition of capital, *but also* a modification to the elements composing constant capital. 'This enormous inflation of fixed capital means, however, that once capital has been invested, its transfer from one sphere to another becomes increasingly difficult' (Hilferding, 1910, p. 186). Indeed, following Hilferding's argument:

The larger the fixed capital, the greater its weight in the balance of investments, and the larger its proportion in relation to the total capital, the more difficult it becomes to realize the value embodied in it without very considerable losses, and to transfer it to a more advantageous sphere. This circumstance modifies the competition between capitals for investment outlets. In place of the old legal restrictions imposed by medieval tutelage, new economic restrictions have emerged which limit the mobility of capital, although admittedly they only affect the capital which has already been transformed into means of production, not the capital which still awaits investment. (1910, p. 186)

What are these 'new economic restrictions' and to what extent do they modify competition?

Hilferding (1910, p.189) clearly states that these new obstacles stem from capitalist development:

Thus obstacles to the tendency to equalize rates of profit emerge, and they increase as capitalism develops. The strength of these obstacles varies, of course, in different spheres in accordance with the composition of capital, and in particular with the relative proportion of fixed to total capital. The difficulties are greatest in the most advanced branches of capitalist production, in the heavy industries, where fixed capital is by far the

most important factor, and where it is most difficult to withdraw capital once it has been invested.

Gérard Duménil (1978, p.298-9) recuses Hilferding's point, suggesting that the development of fixed capital is not 'a serious obstacle to the equalization'. According to Duménil, whenever capital cannot be transferred the depreciation produces a similar effect. In the sector where fixed capital is large, over-accumulation makes profit rates fall below the average rate. Then some capitals are depreciated so that profit rate rises in this sector. Thus, over-accumulation can be cleared out by depreciation [2]. And when depreciation is not sufficient, withdrawal or destruction of capital are necessary before new investment can occur (Marx, 1894, p. 170-173).

Hilferding (1910, pp. 189-90) emphasizes this Marxian view and allows for depreciation, but explains that it takes a long time: the destruction of capital has become 'difficult' and profits are equalized 'only very gradually':

The competitive struggle is not one between the strong and the weak, in which the latter are destroyed and the excess capital in that sphere is eliminated, but a struggle between equals, which can remain indecisive for a long time, imposing equal sacrifices on all the contending parties. The enterprises involved must all find ways of continuing the struggle, if the whole immense capital invested in each of them is not to depreciate in value. Consequently, it has become extremely difficult, in this sphere, to ease the situation by writing off capital [...] A situation may easily develop, in these areas, in which the rate of profit remains below the average over a long period [...] and it can be equalized only very gradually.

For these reasons, the development of fixed capital seems to be a serious obstacle to equalization. David Harvey (1982, p. 208), therefore, considered that the motion of capital 'encounters certain barriers which can check and on occasion disrupt the overall circulation of capital. The fixed-circulating dichotomy is designed to help us understand these problems'. Historically, competition 'takes many forms besides those

that attach to price competition in the market [...] the very size, weight and power of the economic actors involved mean that it becomes less and less certain that capitalists forms of organization will approximate to that equilibrium state which would ensure the equalization of prices and profits and sustained accumulation' (*ibid.*, pp. 149-50). This issue and Hilferding's description of the transformation of competition during the first finance hegemony are useful to try to understand how a specific form of competition may have impeded the equalization of profit rates during the neoliberal period and, thus, constrained the accumulation process.

1.3. The destructive impact of competition in the neoliberal era

How do the over-accumulation and competition mechanisms discussed above account for the stylized facts presented in the introduction? We next consider two related explanations of the long downturn, proposed by Robert Brenner and James Crotty.

Brenner (1998) develops the idea that the industrial catch-up in Germany, Japan and other new industrial powers is at the root of the long downturn that began at the end of the 1960s. It should be noted, that the destabilizing effects of more intense international competition on the national dynamics of accumulation is an argument that also is stressed in some work from the French Régulation School (Mazier *et al.*, 1984). Several aspects of Brenner's arguments have attracted heavy criticism (Duménil, Glick & Lévy 2001; Fine, Lapavistas & Milonakis 2001; Zacharias 2002) and his claims about the falling rate of profit can be disputed on empirical grounds too [3]. However, the argument is interesting and throws new light on the present crisis:

The fundamental source of today's crisis is the steadily declining vitality of the advanced capitalist economies over three decades, business-cycle by business-cycle, right into the present. The long term weakening of capital accumulation and of aggregate demand has been rooted in a profound system-wide decline and failure to recover of the rate of return on capital, resulting largely – though not only – from a persistent tendency to over-capacity, i.e. oversupply, in global manufacturing industries (Brenner 2009, p. 2).

According to James Crotty, Brenner's arguments concerning the new competition regime do not explain the 1970s' crisis, which was attributable mainly to a profit squeeze caused by a disconnection

between the rhythm of wage increases and productivity growth (Crotty, 1999). However, Brenner's argument is relevant to the context of the 1990s where demand was crushed by the requirements of 'impatient finance'. Oligopolies at the centre of the system were able to maintain some co-respective relations 'even as Japan, and, later, Korea and Taiwan began their slow ascent up the export pecking order', but not later when 'neoliberalism severely constrained demand growth' (Crotty 2002, p. 37). In this view, overcapacity is the consequence of over-investment relative to demand.

Crotty's analysis combines the typical Keynesian reasoning on economic process, with a dialectic study of the transformation of 'co-respective competition' into 'coercive competition'. Before defining these concepts, we should point out that it is no accident that Crotty (2000, p. 24, 2002, p. 42) frequently quotes a famous excerpt from *The Poverty of Philosophy*, in which Marx draws on a synthesis of competition and monopoly:

In practical life we find not only competition, monopoly and the antagonism between them, but also the synthesis of the two, which is not a formula, but a movement. Monopoly produces competition, competition produces monopoly. Monopolists are made from competition; competitors become monopolists. If the monopolists restrict their mutual competition by means of partial associations, competition increases among the workers and the more the mass of the proletarians grows as against the monopolists of one nation, the more desperate competition becomes between monopolists of different nations. The synthesis is of such a character that monopoly can only maintain itself by continually entering into the struggle of competition (Marx 1847, p.69).

If this synthesis is not a formula, but a movement, then what is this movement in recent times? According to Crotty (2002, p. 24), it is the movement to a specific – a coercive - form of competition. Crotty stresses that many economists explain 'the decline in global demand growth since the early 1970s' and the 'initial rise in excess capacity', but also that 'the answer to the question of why global supply did not eventually adjust to the slower rate of growth in demand, leading to a slow-paced but balanced expansion, is not obvious'. His explanation is that initial excess capacity:

combined with the collapse of barriers to the free movement of capital, triggered competitive wars for survival. [This] led firms to adopt policies that both further constrained global demand growth and expanded industry capacity at a pace faster than would be understandable within either a neoclassical or Keynesian framework, reproducing excess capacity. Global neoliberalism has thus unleashed a destructive dynamic interaction between its macro and micro levels of activity, a kind of vicious economic circle' (*ibid.* p. 25).

Crotty thus suggests a contemporary form of over-accumulation, that of coerced investment, which continuously recreates excess capacity in core industries.

These arguments on the role of overaccumulation turn the spotlight on some of the current internal boundaries to the process of accumulation. But, in classical writings we can identify at least two other distinctive limits to accumulation. The first is derived from Malthus's insistence in his *Principle of Population*, on the idea of external limits, which is reminiscent of Marx's preoccupation with the exhaustion of the 'original sources of all wealth - the soil and the labourer' (Marx 1867, p. 326), which is echoed in some major present day debates.

2. A pessimistic Ricardian perspective on the ecological crisis

For classical economists, Malthus's *Principle of Population* opens up a huge area of debate and economic pessimism typical of Smith. Initial arguments focused not on the end of capital accumulation, but on the consequences of the different dynamics of a geometric population increase versus arithmetic growth in food supplies. If population numbers increase before the means of subsistence are increased, 'the poor consequently must live much worse' (Malthus, 1798. p. 19). However, this trend does not preclude accumulation:

The number of labourers also being above the proportion of the work in the market, the price of labour must tend toward a decrease, while the price of provisions would at the same time tend to rise. The labourer therefore must work harder to earn the same as he did before. During this season of distress, the discouragements to marriage, and the

difficulty of rearing a family are so great that population is at a stand. In the mean time the cheapness of labour, the plenty of labourers, and the necessity of an increased industry amongst them, encourage cultivators to employ more labour upon their land, to turn up fresh soil, and to manure and improve more completely what is already in tillage [...]. The situation of the labourer being then again tolerably comfortable, the restraints to population are in some degree loosened, and the same retrograde and progressive movements with respect to happiness are repeated. (Malthus, 1798, p. 19)

In Malthus's view, these deleterious effects on workers do not prevent accumulation, but, on the contrary, fuel a mechanism, which Marx and Engels later described as the 'industrial reserve army': an abundance of poor people looking for jobs tends to reduce wages and opens the way to a new phase of economic dynamism through higher profits. The link between depletion of resources and stagnation is referred to explicitly by Ricardo. Departing from Smith and Malthus, he considered the decreasing returns from agriculture a threat to accumulation:

Adam Smith, however, uniformly ascribes the fall of profits to accumulation of capital, and to the competition which will result from it, without ever adverting to the increasing difficulty of providing food for the additional number of labourers which the additional capital will employ. (Ricardo, 1817, p. 192)

The Ricardian argument developed in the *Principles* is well known: an increase in population numbers brings into cultivation more land that is of increasingly poor quality; this leads to an increase in wheat prices, fuelling higher rents and also higher wages, which eventually squeeze out profits. The ensuing reduction in investment capital means that accumulation slows to a stationary state in which the capitalist makes near zero profit. However, Ricardo claims also that this decline can be checked by technological improvements in machinery and international trade.

This preoccupation with scarcity of resources is echoed in contemporary debates over the ecological crisis. To put it simply, a growing world population (above all, growth of per-capita output and consumption and, especially, huge inequalities), produces various ecological problems such as the

depletion of natural resources, pollution, climate change and the destruction of biodiversity. Since the 1972 Meadows report, a significant body of the economic literature has addressed the issues of whether humanity can afford higher global levels of consumption and production. This literature encompasses three main lines of argument.

A first group of researchers, such as Lester Brown, Paul Hawken and also, more recently, more mainstream researchers and proponents of a 'Green New Deal', suggest that further sustainable growth is possible thanks to technological development and factor substitutability. Although there is very wide orientation within this group, all suggest that further growth is compatible with ecological challenges with the implementation of appropriate policies related to regulation, taxation and investment to foster a consumption/investment balance more favourable to investment (Arrow et al., 2004).

A second group of investigations represented by Herman Daly's (1974; 1991) work, but also that of researchers such as Tim Jackson (2009) and Peter Victor (2008), maintains that 'growth isn't possible' (Simms et al., 2010), but that capitalism without growth is an option. This latter claim is challenged by a third group of authors who adopt an anti-capitalist perspective. They agree with the no-growth economists that it is impossible to provide globally both sustainable ecological outcomes and increased GDP growth. However, they consider that capitalism without growth is not an option. Richard Smith (2010, p. 34) states that "growthmania" is hardly just a dogma, an ideology, a fetish. "Growthmania" is a rational and succinct expression of the day-to-day requirement of capitalist reproduction everywhere and in any conceivable capitalism'. Indeed, the capitalist orientation toward endless accumulation is implemented through competition between individual capitals.

These contemporary debates are partially related to the Ricardian argument on the impact of decreasing returns in agriculture over accumulation (Ricardo, 1828, p. 208). In fact, the ecological issue could be formulated thus: could capitalism afford to pay for a reduction in the global material throughput of economic activity at sustainable levels while perpetuating capital accumulation? What is at stake here is the prospects for technological improvements, the rebound effect, the cost and the scalability of these technologies on the one hand (Trainer, 2008), and demand-driven changes to habits on the other (Nye et al., 2010).

The problem is made more complex by the time lag between the destruction of ecological resources and the impact on accumulation. The rising costs of energy and commodity goods (Baffes & Tassos, 2010) have an immediate impact on accumulation, much more than the prices of agricultural goods in the Ricardian model. Thus, the fact that the commodity 'super cycle' that began in 2003 - and especially the boom in oil prices in 2007 - was widely fuelled by financial speculation, does not alter its important role in the eruption of the subprime crisis through the compression of real earnings. However, there are some other dimensions of the ecological crisis, such as pollution, climate change and biodiversity, that need to be taken into account even *before* they affect accumulation. In such circumstances, there is a need to confront politically, capitalist vested interests and to address the institutional problem of cross-period and cross-sector coordination.

The last limit we focus on proceeds from the distinction between productive and non-productive labour, which is a key element of classical political economy and points to the impact on accumulation of the diverse dynamics of various economic activities. The rising share of services in contemporary economies and the role played by conspicuous consumption can be likened to the classical issue of 'unproductive activities'.

3. Tertiariation and unproductive consumption

The distinction between productive and unproductive labour is an important aspect of the classical debates over the prospects for growth. For Adam Smith, there is a substantive distinction between labour in manufacturing, which is able to fuel growth, and domestic labour, which cannot:

There is one sort of labour which adds to the value of the subject upon which it is bestowed; there is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive labour. Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he, in reality, costs him no expense, the value of those wages being

generally restored, together with a profit, in the improved value of the subject upon which his labour is bestowed. But the maintenance of a menial servant never is restored. (Smith 1776, vol.1, p. 330).

Malthus agrees with Smith about the relevance of the distinction between productive and unproductive labour:

Two countries of the same territory and population might possess the same number of agricultural labourers, and even direct the same quantity of skill and capital to the cultivation of the soil, and yet if a considerable proportion of the remaining population in one of them consisted of manufacturers and merchants, and in the other of menial servants and soldiers, the former might have all the indications of wealth, and the latter all the symptoms of poverty. (Malthus, 1820, p. 43)

However, Malthus goes further and distinguishes between 'productive labour' and 'personal services', which is much wider than the menial work of servants:

Labour may then be distinguished into two kinds, productive labour, and personal services, meaning by productive labour that labour which is so directly productive of material wealth as to be capable of estimation in the quantity or value of the object produced, which object is capable of being transferred without the presence of the producer; and meaning by personal services that kind of labour or industry, which however highly useful and important some of it may be, and however much it may conduce indirectly to the production and security of material wealth, does not realize itself on any object which can be valued and transferred without the presence of the person performing such service, and cannot therefore be made to enter into an estimate of national wealth. (Malthus, 1820, p. 35)

From the supply-side point of view, Malthus is in line with Smith. His originality lies in his demand-side view. Drawing on some pre-Keynesian insights (Martin, 2003) Malthus points to the positive role of unproductive consumers, from the demand-side of the accumulation process:

If, in denominating personal services wealth, we do not look to the quality of what is produced, but merely to the effect of the payment received for it in stimulating other wealth, this is introducing a new and separate consideration, which has no relation to the direct production of wealth. In this view it will be seen that I attach very great importance to the unproductive labourers of Adam Smith; but this is evidently not as producers themselves, but as stimulating others to produce, by the power which they possess of making a demand in proportion to the payment they have received. (Malthus, 1820, p. 44).

Consequently, a certain proportion of unproductive consumers needs to be maintained in order to allow greater accumulation, depending on the specificities of a given country at a given time (Malthus, 1820, pp. 412-413). Malthus agrees with Smith in considering that, from the supply side, unproductive labour does not foster growth, but his originality is to stress that unproductive consumers, up to a point, could be useful for accumulation and growth by resolving the recurrent problem of the insufficiency of aggregate demand.

On this subject, Marx partly concurs with Smith and Malthus, but his writings include some fruitful ambivalence. We can thus identify three main analytical lines. Firstly, the more general definition of productive labour concerns labour that produces surplus value alongside the production of exchange value; secondly, labour can produce use value which contributes - or not - to economic reproduction; thirdly, the process of extraction of relative surplus value introduces a dynamic element because it increases the productive power of labour.

Smith, as we have seen, considered labour as productive when it added 'to the value of the materials which he works upon, that of his own maintenance, and of his master's profit' Smith 1776, vol.1, p. 330. For Marx, the first criterion is that labour produces - or not - some surplus value:

That labourer alone is productive, who produces surplus-value for the capitalist, and thus works for the self-expansion of capital. If we may take an example from outside the

sphere of production of material objects, a schoolmaster is a productive labourer when, in addition to belabouring the heads of his scholars, he works like a horse to enrich the school proprietor. That the latter has laid out his capital in a teaching factory, instead of in a sausage factory, does not alter the relation. Hence the notion of a productive labourer implies not merely a relation between work and useful effect, between labourer and product of labour, but also a specific, social relation of production, a relation that has sprung up historically and stamps the labourer as the direct means of creating surplus-value. To be a productive labourer is, therefore, not a piece of luck, but a misfortune.

(Marx 1867, p. 354-355)

Following this argument, labour is productive as far as it is involved in a social relation of production which generates surplus value and fuels the process of accumulation. However, there is no clear delimit between productive and unproductive concrete labour in Marx's writings, which has promoted huge and long lasting debate (e.g. Herland, 1977). But, as Harvey (2006, p. 105) points out, 'The point of Marx's argument was to take what was mere a classification of labourers as discussed by the political economist (Adam Smith in particular) and to convert it into terms that reflected capitalist relations of production'. However, there are some indications of some general principles concerning the character - productive or not - of the use value produced, beyond the sole criteria of surplus value extraction. In particular, it appears that depending on the use value produced (i.e. the kind of consumption) wage labour is not necessarily productive.

Every productive worker is a wage labourer; but this does not mean that every wage labourer is a productive worker. In all cases where labour is bought in order to be consumed as use value, as a service, and not in order to replace the value of the variable capital as a living factor and to be incorporated into the capitalist production process, this labour is not productive labour, and the wage labourer is not a productive worker. His labour is then consumed on account of its use value, not as positing exchange value, it is consumed unproductively, not productively. The capitalist therefore does not confront

labour as a capitalist, as the representative of capital. He exchanges his money for labour as income, not as capital. (Marx 1864, p. 481)

In contrast to Smith, Marx moves beyond the sole services directly consumed by capitalists to include all their private consumption:

The commodities the capitalist buys for his private consumption are not consumed productively, they do not become factors of capital; just as little do the services he buys for his consumption, voluntarily or through compulsion (from the state, etc.), for the sake of their use value. They do not become a factor of capital. They are therefore not productive kinds of labour, and those who perform them are not productive workers. (Marx 1864, p. 482)

In this quote, the work dedicated to the production of use value for capitalist consumption is characterized as not productive because it does not bring any use value to the reproduction process. The following quote makes this clear by pointing to the specificity of luxury goods:

A large part of the annual product, the part consumed as income and no longer re-entering production afresh as a means of production, consists of extremely paltry products (use values), serving to satisfy the most miserable appetites, *fancies*, etc. But content is entirely irrelevant to whether the labour is determined to be productive or not [...] This kind of productive labour produces use values, is objectified in products, which are only destined for unproductive consumption. These products have in reality, as articles, no use value for the reproduction process. (*ibid.*, p. 484)

Marx appears to hesitate in writing that 'content is entirely irrelevant to whether the labour is to be determined to be productive or not'. However, the point here is not the qualification of labour as productive, but the fact that labour that produces commodities that are unproductively consumed may hinder the reproduction process:

If the reproduction process is hindered, or if its progress, in so far as it is already conditioned by the natural increase of the *population*, is prevented by the disproportionate employment of the kind of productive labour which is expressed in unproductive articles, with the result that too few necessary means of subsistence, or too few means of production, etc., are reproduced, luxury must be condemned from the standpoint of capitalist production. (*ibid.*, p. 484)

This second line of argument concerning use value seems to be at odds with Malthus, for whom the main purpose of consumption of unproductive classes was to counter the insufficiency of aggregate demand. For Marx, however, unproductive consumption might hinder the potential expansion of the economy because it represents a capture of use value at the expense of the reproduction of labour power or the expansion of capital. However, a closer reading reveals that for Marx as well as Malthus, the important issue is the proportion of unproductive labour related to productive labour which allows or prevents further accumulation.

The extraordinary productiveness of modern industry, accompanied as it is by both a more extensive and a more intense exploitation of labour-power in all other spheres of production, allows of the unproductive employment of a larger and larger part of the working-class. (Marx, 1867, p. 293)

The third Marxian argument concerns the quality of the actual capitalist labour process. Here we can be more specific when defining productive labour as labour producing surplus value: the very process of mobilising labour as capital in order to produce surplus value leads to a pursuit of increase in not only absolute surplus value but also relative surplus value. The real subjection of labour increases its productive power:

With the real subsumption of labour under capital there takes place a complete [and a constant, continuous, and repeated] revolution in the mode of production itself, in the productivity of labour and in the relation between capitalist and worker. [...] Labour's social

powers of production are developed, and with labour on a large scale the application of science and machinery to direct production takes place. (Marx, 1864, p. 478)

The above quote is an important one because it allows us to link the relations of production and the content of economic activity. Indeed, according to historically determined conditions, it appears that the prospects for increasing relative surplus value – that is, the productive power of labour – are heterogeneous among sectors.

How much of this classical discussion is relevant to contemporary debates concerning growth prospects in rich countries? The three main criteria discussed above point to important contemporary phenomena. First, we observe that a growing share of economic activity does not produce surplus value, but, on the contrary, is maintained while capturing a share of surplus value. Second, there is an important development of unproductive consumption. Third, the growth rate of the economy to a larger and larger extent is being set by the growth rate of productivity of the so-described ‘*technology stagnant*’ (Baumol, Blackman & Wolff, 1989) services activities.

One of the main characteristics of past decades of declining growth rates in rich economies is that neoliberal policies aimed at reducing the share of public sector expenditure in GDP have failed (Lamartina & Zaghini, 2008). This would suggest, beyond the sole phase of industrialization, the resilience of Wagner’s law (1912), which predicts that the development of an industrial economy will be accompanied by an increased share of public expenditure, and which is confirmed by long term trends in developed economies (Baras, 2002, p. 12). This persistence of high levels of public expenditure in GDP reveals the upward pressure of the costs of capital accumulation at the macro level, and the dynamism of social demand for public services. Such costs that cannot be borne directly by private firms, represent a capture of surplus value which hinders accumulation. This is not to contradict the positive role of such public expenditure as an automatic stabilizer in downward phases of the conjuncture or, more widely, as demand stimuli for private investment.

In addition to the importance of public expenditures, it is necessary to consider the dramatic growth, during the past decades, of private activities, such as banking, finance, insurance and trading which, for classical economists, do not produce value but, on the contrary, capture a share of surplus value.

At a second level, the boom in consumerism may have fostered unproductive consumption patterns, which do not contribute to the reproduction of labour power or, even, impact negatively on its reproduction; consider, for example, the rise in consumption of unhealthy food products. The rise in inequalities has been accompanied by a boom in conspicuous consumption, which has spread throughout all of society based on imitative behaviour, mirroring the predatory motive of emulation highlighted by Thorstein Veblen in his 1899 *Theory of the Leisure Class*. Moreover, the sophistication and huge development of marketing and advertising – what Veblen (1923) calls ‘salesmanship’ – mean that consumption behaviours are widely shaped by the short-run needs of competing firms, independent of the medium and long run productive requirements of capital expansion. It is probably necessary to link the relatively small level of investment in advanced economies to this unproductive shift in use value consumption.

Finally, some recent evidence (Montresor & Vittucci Marzetti, 2011) for OECD countries confirms the so-called Clark-Fischer hypothesis (Clark, 1940), which assumes that economic development is characterized by a shift from agriculture to manufacturing and from manufacturing to services. This deindustrialization-tertiarization is consistent with Baumol's (1967; Baumol *et al.*, 1989; Rowthorn & Ramaswamy, 1997) argument: as the economy grows, mechanically the weight of service activities, in which productivity improvement possibilities are limited, progresses, which suggest an inexorable process of growth slowdown. In a Marxian perspective, this means that the extent to which the real subjection of labour increases its productive power is less important in most service industries than in manufacturing, although significant socio-economic and technological breakthroughs tend endlessly to redefine the frontier between stagnant and progressive activities.

Conclusion

Beyond the crisis, the case for the stationary state in rich economies (Balakrishnan, 2009) relies on several long term demographic, social and ecological trends. However, much of the contemporary debate focuses on the desirability or the possibility of growth rather than on the inner dynamics of capitalism (Daly, 1974, 1991; Victor, 2008; Jackson, 2009). In this article we relied on an analysis of classical economists to highlight relevant mechanisms and issues concerning the prospects for capitalist dynamics which might help us to a better understanding of the contemporary situation of capitalism in rich economies. In particular, we stressed the importance of competition dynamics, rising environmental

costs and the rise in stagnant activities. The careful discussion by classical economists of the mechanisms that might be driving these dynamics provides a fruitful research agenda at a time when the failure to provide strong growth is a common feature of the major northern countries.

This would seem all the more relevant when innovation and the gains from international trade, the main counter-tendencies to stagnation identified by classical political economy (Mill, 1848), seem to be being depleted by intellectual monopolization on the one hand (Pagano & Rossi, 2009), and consolidation of value chains and rising wages in the developing world on the other (Milberg & Winkler, 2010). The old arguments concerning the limits to capital accumulation provide historical insights favouring a shift in economic policy from an almost exclusive focus on competition and growth towards a focus on the cooperative possibilities to improve social and ecological conditions.

Notes

[1] On Heilbroner, see (Alvey 2003, p. 20-1). Heilbroner's interpretation of Smith's pessimism has been criticized by Gavin Kennedy (2005). But according to *The Adam Smith Review*, 'one of the more intriguing aspects of *Smith's Lost Legacy* is Kennedy's attempt to offer an optimistic reading of Smith's political economy [...] Kennedy may be right in maintaining that too much has been made by some about Smith's version of the stationary state. Nevertheless it is an essential part of Smith's growth model and, at the very last, serves as a warning to policymakers unconcerned about whether commercial markets are expanding or contracting. As Smith emphasizes time and again, there are no guarantees that growth is inevitable' (Harpham 2007, p. 221).

[2] Depreciation is a case of devaluation, which is 'the underside to over-accumulation' (Harvey 1982, p. 195).

[3] According to some leading Marxists economists, there was a restoration of high profit rates during the neo-liberal period (Foster & Magdoff 2008; Duménil & Lévy 2010; Husson 2010).

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