The Fallacy that Capitalism Requires Growth

When I advocate for shorter work hours and the slower rate of economic growth that they would bring, I often hear this objection: it is impossible because capitalism requires growth to maintain the rate of profit.

This objection is a leftover from an outdated Marxist ideology that has no intellectual merit. But the objection is common enough that it is worthwhile to take a bit of time to see why it is wrong.

Mainstream Economists On Growth

In the nineteenth century, the classical capitalist economists agreed that growth would ultimately come to an end when all investment opportunities were exhausted. As capital accumulated, they theorized, capitalists would begin by making the most profitable investments in better production technology, and then they would make progressively less profitable investments because of the law of diminishing returns. Ultimately, enough capital would accumulate for all the profitable investments in better production technology to be made, and after that, investments would just be needed to replace production technology as it depreciated. At that point, the rate of profit would be low enough that people would just save and invest enough to replace capital equipment as it depreciated. Thus, capitalism would ultimately lead to a "stationary state."

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Most classical economists were interested in increasing the wealth of nations, and they did not look forward to the stationary state. By contrast, John Stuart Mill believed that the stationary state combined with population control would increase human well-being:

> I cannot . . . regard the stationary state of capital and wealth with the unaffected aversion so generally manifested towards it by political economists of the old school. I am inclined to believe that it would be, on the whole, a very considerable improvement on our present condition. I confess I am not charmed with the ideal of life held out by those who think that the normal state of human beings is that of struggling to get on; that the trampling, crushing, elbowing, and treading on each other's heels, which form the existing type of social life, are the most desirable lot of human kind, or anything but the disagreeable symptoms of one of the phases of industrial progress.[1]

But whether they looked forward to it or not, none of the classical economists believed that the stationary state would involve the collapse of capitalism. Capitalists would not like the fact that the rate of profit was lower, but they would have to live with it. In fact, the lower rate of profit was necessary to reduce the amount of investment and to bring the end of growth.

In the twentieth century, there was far more technological innovation than the classical economists had expected; these the innovations created new opportunities for investment and for economic growth. This led some economists to anticipate that growth might end not because investment opportunities were exhausted, as the classical economists expected, but because demand was satiated: growth might reach the point where people had pretty much everything that they wanted and did not want to consume more.

For example, John Maynard Keynes claimed that "mankind is solving its economic problem." In the past, "the economic problem, the struggle for subsistence, always has been ... the primary, most pressing problem of the human race - not only of the human race but of the whole biological kingdom from the beginnings of life." But in the future, "a point may soon be reached, much sooner perhaps than we are all aware of, when these needs are satisfied in the sense that we prefer to devote our further energies to non-economic purposes." When that time comes, "man will be faced with his real, his permanent problem - how to use his freedom from pressing economic cares, how to occupy the leisure which science and compound interest will have won for him, to live wisely and agreeably and well."[2]

In recent decades, ecological economists have begun to say that growth must end because of limited resources and limited ability of the earth to absorb pollution. The Canadian economist Peter Victor has created computer models of the end of growth, and he has found that results are dramatically different as he changes the values for macroeconomic variables such as the savings rate, the rates of public and private investment, and the length of the work week. In one run, the end of growth brings economic instability, high unemployment, and rising poverty. In another run, the end of growth brings economic stability, cuts both the unemployment and poverty rates in half, reduces the ratio of debt to GDP by 75%, and reduces the average work week substantially.[3]

Some mainstream economists have begun to accept the once radical opinion that growth will end. For example, Prof. Robert Solow, who won the Nobel Prize in Economics for his theory of economic growth, was recently quoted in *Harpers Magazine* saying:

> "I think it's perfectly possible that economic growth cannot go on at its current rate forever. . . . It is possible that the United States and Europe will find that, as the decades go by, either continued growth will be too destructive to the environment and they are too dependent on scarce natural resources, or that they would rather use increasing productivity in the form of leisure. . . . There is nothing intrinsic in the system that says it cannot exist happily in a stationary state."[4]

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Marxists On Growth

Despite all the changes in mainstream theory about growth, today's Marxists still preach the faith that Marx developed in the nineteenth century.

Like other nineteenth century economists, Marx believed that the rate of profit would decline and growth would ultimately end as all profitable investments were made. Unlike mainstream nineteenth century economists, Marx believed that this would lead to the collapse of capitalism: as growth slowed, capitalists would exploit workers

more and more fiercely, until the workers' misery provoked a revolution. Of course, Marx had no evidence for this belief. It was contrary to what mainstream economists of the time believed about the end of growth, and it was based only on Marx's dogmatic commitment to the end of capitalism.

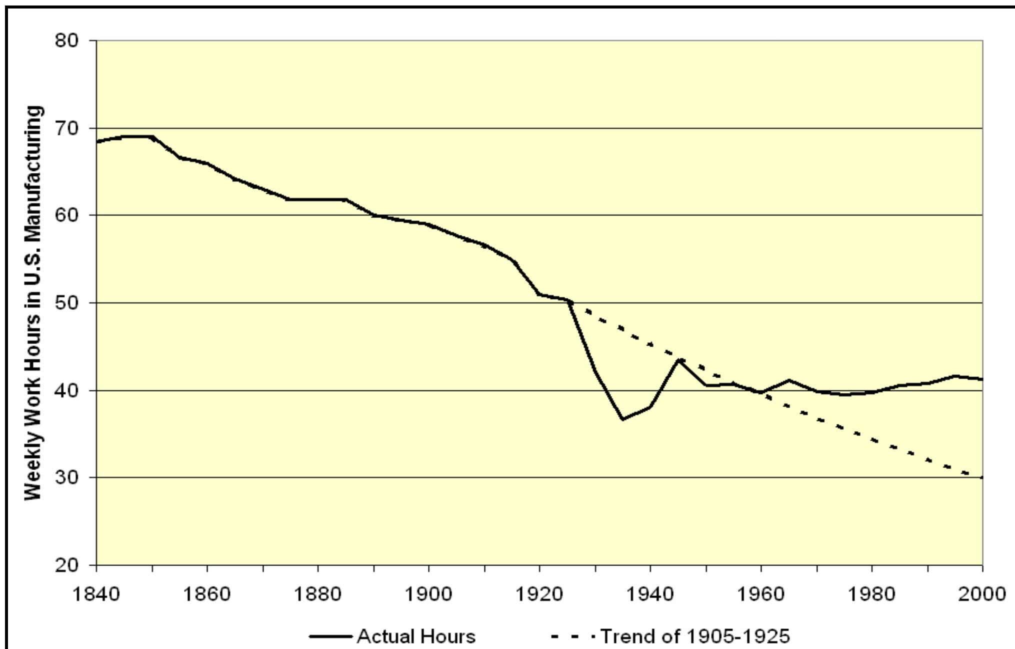
This is the idea that today's belated Marxists are still parroting when they claim that capitalism requires growth to maintain the rate of profit.

Their idea that growth cannot end is based on the premise that the capitalists have complete control over what happens in a capitalist economy. Reform is impossible within the context of capitalism. We can only change things by doing away with capitalism completely and replacing it with a new economic system.

This premise also implies that wages can never increase above the subsistence level in a capitalist economy, because capitalism requires low wages to maximize profit. In fact, Marx believed this and called it "the iron law of wages." Here, too, Marx claimed that reform is impossible within the context of capitalism. Capitalists have not only the desire but also the power to lower wages to such miserable levels that they will provoke the workers' revolution.

History Proved Marx Wrong

Needless to say, history proved that Marx was wrong about wages. Labor unions did succeed in raising wages above the subsistence level in the United States and in the other developed nations, despite the fact that Marxists believed this reform was impossible within the context of the capitalist system.



"The average work week for factory workers went down from about 70 hours in the 1840s to about 40 hours by the 1940s."

Average Work Week in American Manufacturing
(source: Historical Statistics of the United States)

Likewise, history proved that Marxists are wrong about shorter work hours. As labor

unions fought for higher wages, they also fought for shorter work hours. As we can see in the graph, work hours went down consistently from the beginning of the industrial revolution until the mid-twentieth century. The average work week in for factory workers went down from about 70 hours in the 1840s to about 40 hours by the 1940s.

The move toward shorter work hours has continued in Europe, where unions remain stronger than in the United States. In the Netherlands and Germany, workers have the right to choose shorter hours at proportional pay. As a result, the average Dutch worker works only 75% as many hours per year as the average American worker. The Dutch produce about as much per hour as Americans, but they work 25% less, consume 25% less, and pollute 25% less.

The people who say that we cannot possible shorten work hours because capitalism requires growth are ignoring the facts. The United States did shorten work hours through the nineteenth and early twentieth century - when it was, if anything, more capitalistic than it is now. The average Dutch worker does choose to work less and have less income than the average American worker, and the Dutch economy has not suffered as a result.

Marxism as Defeatism

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The worst thing about the Marxists' claim that we cannot shorten work hours because capitalism requires growth is that it is defeatist.

During the nineteenth century, Marxists were wrong to claim that higher wages and shorter hours are impossible in the context of capitalism, but at least they had an idealistic (though misguided) view of the future: higher incomes and shorter hours would come after the socialist revolution.

Today, Marxists are simply defeatists when they claim that shorter hours and slower growth are impossible in the context of capitalism. We have to reduce greenhouse gas emissions by 80% to 90% by 2050, and no one believes that the socialist revolution will come in time to do that.

When environmentalists say that shorter work hours and slower growth can help us reduce greenhouse gas emissions, and Marxists reply that it is impossible because growth is necessary to capitalism, the Marxists' dogmatism is just making them obstruct a change that is needed to help deal with global warming, peak oil, and other environmental issues. By repeating this discredited nineteenth century dogma, they are working against the well-being of future generations.

Notes

[1] John Stuart Mill, "Of the Stationary State" from Principles of Political Economy (1848), Book IV, Chapter VI.

[2] John Maynard Keynes, "Economic Possibilities for our Grandchildren," in *Essays in Persuasion* (New York, Harcourt, Brace & Co., 1932) pp. 358-373. ??more precise pages.

[3] Peter Victor, *Managing Without Growth : Slower by Design, Not Disaster* (Edward Elgar Publishing Ltd, 2008).

[4] Quoted in Steven Stoll, "Fear of fallowing: The specter of a no-growth world," *Harper's Magazine*, March, 2008.

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preserve@preservenet.com, http://www.preservenet.com