The Logic of Capitalist Expansion

RICHARD C. EDWARDS

The capitalist period as an historical epoch has been characterized by a rapid expansion of production in the advanced countries.[1] The material productiveness of advanced capitalist societies was noted by Marx and Engels, writing in 1848:[2]

> *The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of nature's forces to man, machinery, application of chemistry to industry and agriculture, steam navigation, railways, electric telegraphs, clearing of whole populations conjured out of the ground—what earlier century had even a presentiment that such productive forces slumbered in the lap of social labor?*

If the statement seemed true in 1848, how much truer it appears from the affluent perspective of another hundred years.

The purpose of this essay is to show how the basic capitalist institutions described at the beginning of this chapter have fostered such a tremendous expansion of economic capacity. How has capitalism led to the development of what Marx and Engels called "colossal productive forces"?

The argument presented below is divided into two parts. The first section deals with those motivations and pressures which induce capitalists to strive to expand output; we note both "internal" motivations (the capitalist's own desire to accumulate) and "market pressures" (the necessity for the capitalist to maintain a competitive market position). The second section outlines the way in which workers enter the production process under capitalism, leading to the market allocation of labor resources according to profit criteria.

THE CAPITALIST AS OWNER

The capitalist mode of production is historically unique in that it concentrates the means of production in the hands of a few people —capitalists—whose *only* role in the society is to make profits; they stand to gain personally, directly, and in large measure from the expansion of profits. Their interest in production, then, is not in the social merit or intrinsic value of what they produce, but only in their product's potential profitability.

This social justification places the capitalist in contrast to the feudal lord, the ancient slave-owner, or the eastern potentate, all of whom controlled the production process as firmly as the capitalist does today. However, these earlier dominant classes rested their ideological superiority and their right to rule on claims other than economic prowess. Some classes had religious claims (the Hebrew priests, the medieval church, "divinely" appointed kings); others had military claims (medieval lords, Roman emperors, Indian war chiefs); still others had political, cultural, or other claims. Only the capitalist class bases its claim to dominance and privilege directly on its ability to make profits by selling goods on the market.

[1]Note that we are talking only about the *advanced* countries; the *failure* to generate such growth in the outlying areas is one of the aspects of this growth in advanced countries.

[2]The quote is from *The Communist Manifesto*, excerpted in Section 2.5, p. 66.

Hence it is understandable that previous dominant classes should have had less interest in expanding production, and that the capitalist class, whose single rationale is making and accumulating profits, should have been the historical agent for creating growth in material production.

The fundamental characteristic of capitalist production is that it is organized, controlled, and motivated by capitalists and their firms to make profits. The capitalist firm *realizes* profits only by producing goods and selling them on the market. Firms therefore attempt to sell as much as possible at as high a price as possible. The motivation to capture profits leads the capitalist firm to produce huge quantities of goods for sale on the market if it thinks it can sell them.

The question, then, is what motivates the capitalist to strive so diligently to make and accumulate profits? First, of course, the profits which are generated in a firm *belong* to the owner-capitalist. So undoubtedly the primary motivation is simply the *personal* one: the capitalist, by increasing profits, increases his own wealth and ability to consume, expands his own power and sphere of control, and enhances his own privileges and status. In capitalist society, power and status are gained primarily through one's control over commodities, especially ownership of wealth; so the incentive to accumulate is correspondingly stronger. Furthermore, these attributes are measured *relative* to other people's situations, so the desire to expand profits (and hence increase one's wealth, power and status) continues indefinitely.

Second, we have already noted the ideological basis for capitalists' need to maximize profits. The social rationale for putting capitalists in charge (rather than, say, running firms democratically or letting communities operate local firms) is that capitalists *own* as private property the means of production, and therefore they have the *right* to determine its use.

But the efficacy of this claim for *private* control of what is after all the *social* means of production, while it rests in the first instance on the inviolability of private property, ultimately reflects a deeper ideological assertion: that the whole society benefits by granting capitalists the right to control production. Everyone benefits, the argument goes, because property-owning capitalists organize society's production efficiently. The magnitude of his profits provides the evidence demonstrating the capitalist's social usefulness; for he realizes profits only to the extent that he efficiently produces what people want and need. This reasoning thus transforms the capitalist's act of making profits for himself into a socially essential and useful act. The *raison d'être* of the capitalist is his ability to expand production for the good of all. This ideological justification reinforces the capitalists' personal stake in expanding profits.

Capitalists' personal and ideological interest in expanding profits would by itself lead us to expect a powerful dynamic within capitalism for expansion of output. But they are driven to expand profits not only because they *want* to, but also because if they are to remain capitalists, the market *forces* them to do so. Capitalists do not operate independently; they sell goods in a market and buy labor and raw materials in other markets and must therefore face the constraints of supply and demand and market competition.

The choice of technology, the need to expand production, and the organization of the work process are determined primarily by the structure of the market system, and only in small part by the particular characteristics of individual capitalists. A particularly greedy or insensitive capitalist may exacerbate the oppressive conditions of the workplace, for example, but he cannot alter the basic situation. Neither can a particularly kind and humane capitalist change matters. *Capitalists act as capitalists because, if they are to survive as capitalists, the market forces them to act that way*. For example, suppose a certain capitalist decided on his own to pay higher wages, not to introduce oppressive kinds of

new technology, and to distribute the product to the community at a lower price. He would be successful for a while, making smaller profits than other capitalists, but nonetheless remaining in business.

But sooner or later other capitalists would enter the scene. They would realize that they could make higher profits if they simply paid the market wage rate, not the higher rate that our "humane" capitalist voluntarily decided to pay. They would also realize that they could make higher profits if they were unafraid to introduce more efficient technology, which our "humane capitalist" refused to do because of the alienating characteristics of that technology. Finally, with the savings gained by paying lower wages and using more efficient technology, these new capitalists would realize that they could reduce the price even a bit further than the humane capitalist did, and still make profits. By doing so, they would underprice the "humane capitalist's" profits and drive his goods from the market.

Since he can no longer sell his products, the "humane capitalist" is now faced with a dilemma: either emulate the other capitalists, reduce wages, and introduce the new technology—in short, act as a "nonhumane" capitalist—or quit being a capitalist altogether. The conclusion is that no matter how much he might wish to act differently, if he is to remain a capitalist, he must act within the constraints set by competition in the market.[3] Marx described this process as follows:[4]

The method of production and the means of production are constantly enlarged, revolutionized, division of labor necessarily draws after it greater division of labor, the employment of machinery greater employment of machinery, work upon a large scale work upon a still greater scale. This is the law that continually throws capitalist production out of its old ruts and compels capital to strain ever more the productive forces of labor for the very reason that it has already strained them—the law that grants it no respite, and constantly shouts in its ear, March! March! . . .

No matter how powerful the means of production which a capitalist may bring into the field, competition will make their adoption general; and from the moment that they have been generally adopted; the sole result of the greater productiveness of his capital will be that he must furnish at the same price, *ten, twenty, one hundred times as much as before. But since he must find a market for, perhaps, a thousand times as much, in order to outweigh the lower selling price by the greater quantity of the sales; since now a more extensive sale is necessary not only to gain a greater profit, but also in order to replace the cost of production (the instrument of production itself grows always more costly, as we have seen), and since this more extensive sale has become a question of life and death not only for him, but also for his rivals, the old struggle must begin again, and it is all the more violent the more powerful the means of production already invented are.* The division of labor and the application of machinery will therefore take a fresh start, and upon an even greater scale.

Whatever be the power of the means of production which are employed, competition seeks to rob capital of the golden fruits of this power by reducing the price of commodities to the cost of production; in the same measure in which production is cheapened, i.e., in the same measure in which more can be produced with the same amount of labor, it compels by a law which is irresistible a still greater cheapening of production, the sale of ever greater masses of product for smaller prices. Thus the capitalist will have gained nothing more by his efforts than the obligation to furnish a greater product in the same labor time; in a word, more difficult conditions for the profitable employment of his capital. While competition, therefore, constantly pursues

[3]Notice that only certain decisions are made by the market and that there is tremendous scope left in capitalists' hands for control of work. The capitalist decides what products to produce, who shall work for him, where and at what hours work shall be performed, when new factories shall be built, what the authority relations among the workers shall be, and so forth. The market merely places *constraints* on his options, requiring him, for example, to pay the market wage, to avoid inefficient technologies, to ignore ecological damage, etc. For an excellent historical discussion, see S. A. Marglin, "What Do Bosses Do? The Origins and Function of Hierarchy in Capitalist Production" (Harvard University, 1971, Mimeo).

[4]Karl Marx, *Wage Labour and Capital.*

him with its law of the cost of production and turns against himself every weapon that he forges against his rivals, the capitalist continually seeks to get the best of competition by restlessly introducing further subdivision of labor and new machines, which, though more expensive, enable him to produce more cheaply, instead of waiting until the new machines shall have been rendered obsolete by competition.

If we now conceive this feverish agitation as it operates in the market of the whole world, *we shall be in a position to comprehend how the growth, accumulation, and concentration of capital bring in their train an ever more detailed subdivision of labor, an ever greater improvement of old machines, and a constant application of new machines—a process which goes on uninterruptedly, with feverish haste, and upon an ever more gigantic scale.*

Thus, not only does the capitalist firm *want* to expand production and profits, it is *forced* to expand production and cut costs to *retain* profits. The firm cannot stand still. It must push on.

This pressure to keep up with the market and to maintain one's competitive position also induces firms to seek new products, entirely new markets, and new technologies. Often this search for new sources of profits is carried on within the domestic economy as new products are promoted by advertising, or old markets are entered by new firms. But since the motivation is simply realization of profits, capitalist firms have increasingly turned to the cultivation of foreign markets. So a powerful tendency towards geographic expansion and extension of market control on an international scale has likewise characterized capitalism.[5]

This dynamic competition, in addition to the more routine price competition Marx described, poses both opportunities and constant threats to all firms. According to Schumpeter:[6]

The essential point to grasp is that in dealing with capitalism we are dealing with an evolutionary process. . . . Capitalism is by nature a form or method of economic change and not only never is, but never can be stationary. And this evolutionary character of the capitalist process is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the data of economic action; this fact is important and these changes (wars, revolutions, and so on) often condition industrial changes, but they are not its prime movers. Nor is this evolutionary character due to a quasi-automatic increase in population and capital or to the vagaries of monetary systems of which exactly the same thing holds true. The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumer goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates. . . . In capitalist reality as distinguished from its textbook picture, it is not price competition or a small cost advantage which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance)—competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives.

It is hardly necessary to point out that competition of the kind we now have in mind acts not only when in being but also when it is merely an ever-present threat. It disciplines before it attacks. The businessman feels himself to be in a competitive situation even if he is alone in his field or if, though not alone, he holds a position such that investigating government experts fail to see any effective competition between him and any other firms in the same or a neighboring field and in consequence conclude that his talk, under examination, about his competitive sorrows is all make-believe. In many cases, though not in all, this will in the long run enforce behavior very similar to the perfectly competitive pattern.

Most industries have become so concentrated that one or a few firms dominate the

[5]See MacEwan, Section 10.1, p. 409.

[6]Joseph Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper & Row Publishers, Inc., 1950), pp. 82-85.

entire national industry. In the United States a few firms in each industry account for most of the market in automobile, steel, food processing, computers, oil, drugs, aviation, chemicals, and most other goods. In these industries collusion and price agreements among the large firms have largely eliminated price competition.

But even the largest firms do not escape the market pressure for reducing costs, introducing more productive technologies, expanding one's market, increasing profits, and repeating the whole cycle. Large firms face *international* competition from similarly large firms in other advanced countries. Likewise *nonprice* competition continues in both domestic and foreign markets. Baran and Sweezy describe the situation well:[7]

> *The abandonment of price competition in monopolistic industries does not mean the end of all competition: it takes new forms and rages on with ever increasing intensity. Most of these new forms of competition come under the heading of what we call the sales effort. . . . Here we confine attention to those forms of competition which have a direct bearing on costs of production and hence on the magnitude of the surplus.*
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> *There are, it seems to us, two aspects of non-price competition which are of decisive importance here. The first has to do with what may be called the dynamics of market sharing. The second has to do with the particular form which the sales effort assumes in the producer goods industries. . . .*
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> *To begin with, the firm with lower costs and higher profits enjoys a variety of advantages over higher-cost rivals in the struggle for market shares. (This fact seems to have been largely overlooked by economists, but it is perfectly clear to businessmen.) The firm with the lowest costs holds the whip hand; it can afford to be aggressive even to the point of threatening, and in the limiting case precipitating, a price war. It can get away with tactics (special discounts, favorable credit terms, etc.) which if adopted by a weak firm would provoke retaliation. It can afford the advertising, research, development of new product varieties, extra services, and so on, which are the usual means of fighting for market shares and which tend to yield results in proportion to the amounts spent on them. Other less tangible factors are involved which tend to elude the economist's net but which play an important part in the business world. The lower-cost, higher-profit company acquires a special reputation which enables it to attract and hold customers, bid promising executive personnel away from rival firms, and recruit the ablest graduates of engineering and business schools. For all these reasons, there is a strong incentive for the large corporation in an oligopolistic industry not only to seek continuously to cut its costs but to do so faster than its rivals. . . .*
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> *There is an additional reason, in our judgement as important as it is neglected, why a tendency for costs of production to fall is endemic to the entire monopoly capitalistic economy, including those areas which if left to themselves would stagnate technologically. It stems from the exigencies of non-price competition in the producer goods industries. Here, as in industries producing consumer goods, sellers must be forever seeking to put something new on the market. But they are not dealing with buyers whose primary interest is the latest fashion or keeping up with the Joneses. They are dealing with sophisticated buyers whose concern is to increase profits. Hence the new products offered to the prospective buyers must be designed to help them increase their profits, which in general means to help them reduce their costs. If the manufacturer can convince his customers that his new instrument or material or machine will save them money, the sale will follow almost automatically.*

As we noted earlier, the firm only *realizes* profits by *selling* its products in a market. So the drive for greater profits leads inevitably to the drive to expand marketed output. In many industries, especially the more monopolistic ones, unlimited expansion of sales (and profits) may be ruled out, because demand has been satisfied as much as the profit criterion allows. However, if sales cannot be expanded, profits can nonetheless be increased by reducing costs; that is, by reduc-

[7]Paul Baran and Paul Sweezy, *Monopoly Capital*, (New York: Monthly Review Press, 1966) pp. 67-70.

ing the amount of labor and other inputs which the firm must buy. The resources released by reducing inputs are then available for production elsewhere. Likewise, if output cannot be profitably expanded in one's own market, this simply increases the incentive for the firm to enter new markets—either markets in different goods or geographically new markets. In either event, the result is the same: expanding profits directly or indirectly require and hence lead to the expansion of production.[8]

But output (and hence profits) are expanded only by reinvesting previous profits to make more profits. To this end, the firm will attempt to expand its factory or build a new one, buy new and better machines, or do whatever it thinks best to increase output, capture a price advantage from its competitors, develop new markets, or invade new industries—all in the pursuit of turning its previously earned profits into more profits.

Now of course the capitalist firm will reinvest its profits only if it expects to get in return not only the amount reinvested but also a dividend, the interest on the capital, or put simply, more profits than it invested. Otherwise, there would be no reason for it to invest—it could as well put the money in a safe mattress.

Hence there is an ever-expanding volume of profits seeking opportunities for reinvestment. Every time profits are created, they must be reinvested. And reinvestment means precisely creating more output, reducing costs (thus freeing resources for employment elsewhere), and expanding profits. Then the cycle is repeated. This expanding volume of profits therefore impels the firm to look for new markets, search for new products to be produced, and create more output to sell.[9]

This process ensures that production will become increasingly efficient or market-rationalized; i.e., the capitalists will produce whatever brings the highest market value using resources for which the capitalist had to pay the least. Hence a new technology is introduced, people are thrown out of work, transferred, etc. when the savings of inputs from the new method promises higher profits.

Both "internal" motivations and competitive market pressures drive the capitalist toward more profits. Capitalists therefore have the *motivation* to expand profits. With ownership and legal control of the means of production, they have the *power* required to institute and carry out this drive for expanded profits. Finally, their accumulated profits, their control over the social surplus, provides them with the material *resources* needed to expand production. *The capitalist has therefore gathered into his own hands all of the elements required for him, in his social role as production organizer, to structure and restructure the workplace to suit his drive for profits.*

THE WORKER AS ALIENATED LABOR

The market in labor is an important link in this process of market-rationalizing production. The wage contract is viewed as a voluntary exchange of labor services for wages. The capitalist is then free to hire, fire, and reemploy workers at will and without regard for the social consequences. In medieval

[8]In industries where only a few firms dominate the market, the prices are presumably set by an agreement among the firms at the level which they think will yield the greatest profits. Further expansion of sales would require reduction of the artificially high monopoly price, and if the price decline was large enough, would reduce profits. It is sometimes claimed that since in this case firms *restrict* output, the existence of monopoly refutes the tendency described in the text for capitalism to generate ever-greater output. But it should be clear that while output may be restricted in particular industries, the continuing incentive to reduce costs simply requires the expansion mechanism to operate indirectly and does not change the result.

[9]This expansion of profits particularly occurs when governmental policy is able to avert depressions, since in this case the capitalist firm can sell its products and thereby translate its output *capacity* into profit *realization*. See Weisskopf, Section 9.1, p. 364.

society, production was carried out with the workforce on the manor. The entire workforce—serfs, artisans, bailiffs, and lord—all shared the vicissitudes of the crops. They shared unequally, of course, the lord getting many times the portion due the serf. Yet no one was fired in bad times; each person had a claim to his "just" part of the product, and everyone had a right to participate in the tradition-determined organization of work.

In a labor market, however, the capitalist firm makes its decisions about whom to hire and how many to hire strictly on the basis of profitability. Labor is treated as a commodity like any other raw material required for production. The capitalist firm is not tied to its workers by traditional obligations, as the feudal lord was to his serf. The capitalist need not consider workers' lives or rights when choosing a work force.[10] Hence the allocation of people among various jobs is determined by the market criterion of profitability. Each worker, as the commodity "labor," is assigned to that job where he has the highest productivity, for that employment will produce the greatest profit for the capitalist.

The size of the wage which a capitalist is willing to pay depends on how valuable a worker is to the firm—or more precisely, how much his work adds to the profits of the firm. For example, a skilled worker is more valuable than an unskilled worker. Consequently, when a skilled worker enters the labor market, capitalist firms will compete to hire him and will be willing to pay a higher wage.

Capitalists will bid against each other for workers, and will quit bidding when they perceive that the wage they pay the worker would be greater than the additional profits realized from his being hired. The winner in the bidding will be that capitalist who has organized production in the most profitable manner, hence who can offer the most "productive" (i.e., profitable) employment. Labor therefore tends to be "efficiently" allocated among various uses.

The individual worker is given tremendous incentive to obtain those skills which make him valuable to the production process. Most people own no wealth assets which could provide a large enough income to support them without working. Consequently, for survival, they must sell their labor power in the market. Since a worker's labor power will be more highly valued in the market if he has productive skills, the incentive is created for him to obtain those skills. The worker goes to school, learns vocational skills, learns to be a "respectful" and disciplined worker, and so forth, in the hopes that he can earn a higher wage.

The market allocation of labor thus directly reinforces the tendency towards expansion of output under capitalism. Greater production occurs because workers are assigned to their most productive employments and because workers themselves strive to become more productive to gain higher wages.

The major theme of this essay is perhaps best restated by Baran and Sweezy:[11]

> *We have come a long way since the historical dawn of capitalist production and even since Karl Marx wrote* Das Capital. *Nowadays the avaricious capitalist, grasping for every penny and anxiously watching over his growing fortune, seems like a stereotype out of a nineteenth-century novel. The company man of today has a different attitude. To be sure, he likes to make as much money as he can, but he spends it freely, and the retirement benefits and other perquisites which he gets from his company enable him to take a rather casual attitude towards his personal savings. Noting the contrast between the modern businessman and his earlier counterpart, one might jump to the conclusion that the old drive has*

[10]See the description of the first "mass firing," i.e., the expulsion of the peasants from their land, in Marx, Section 2.4, p. 61.

[11]Baran and Sweezy, *Monopoly Capital*, pp. 43-44.

gone out of the system, that the classical picture of capitalism restlessly propelled forward by the engine of accumulation is simply inappropriate to the conditions of today.

This is a superficial view. The real capitalist today is not the individual businessman but the corporation. What the businessman does in his private life, his attitude toward the getting and spending of his personal income—these are essentially irrelevant to the functioning of the system. What counts is what he does in his company life and his attitude toward the getting and spending of the company's income. And here there can be no doubt that the making and accumulating of profits hold as dominant a position today as they ever did. Over the portals of the magnificent office building of today, as on the wall of the modest counting house of a century or two ago, it would be equally appropriate to find engraved the motto: "Accumulate! Accumulate! That is Moses and the Prophets!"

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