A

accumulation

In general, accumulation refers to the buildup of assets over time by an individual, an organization, a country, or the world. Most economists exclude the accumulation of natural resources, financial assets and military assets from analysis and focus on means of production or knowledge. Thus, accumulation is typically part of macroeconomics and ECONOMIC GROWTH theory, rather than part of a zero-sum game.

There are two main visions of accumulation (see Nell 1987). The first is the tradition of Adam Smith and the neoclassical economists, in which accumulation is mostly an allocational problem, the postponement of consumption. The other tradition, corresponding to classical and Marxian interpretations of CAPITALISM, sees accumulation as a result of profit-seeking behavior, independent of any plans for future consumption. Further, in this latter view, accumulation is seen as based on prior production of a surplus product.

Adam Smith

While mercantilist economic theory and the political theory of John Locke emphasized the accumulation of money, Adam Smith stressed the importance of the "accumulation of stock" (i.e. physical means of production) and its results. For him, accumulation is based on parsimonious use of profit or rent, that is, its non-expenditure on consumption or unproductive labor. He presumed that only private entrepreneurs accumulate, while the government and the landed aristocracy only consume. Assuming an early version of "Say's Law," Smith's notion of accumulation unified both saving and investment. Accumulation allows the extent of the market to rise, encouraging the division of labor and thence productivity; it was thus at the center of promoting the wealth of nations. Smith also discussed how accumulation can increase wages, allowing the benefits of expansion to trickle down to the lowest orders of the population.

Most classical economists followed the path sketched by Smith. Unlike Smith, however, David Ricardo, John Stuart Mill and others believed accumulation would eventually stop as the economy attained a "stationary state" of effectively zero profits, when profits and interest are absorbed by land rent due to natural diminishing returns. Others, such as Thomas Malthus and J.C.L. Simonde de Sismondi, saw the possibility of underconsumption blocking accumulation.

Karl Marx

For Karl MARX, on the other hand, accumulation put the "motion" into capitalism's laws of motion. Accumulation was based on surplus value resulting from the EXPLOITATION of the proletariat by the capitalists, which was based in turn on the separation of the workers from control of the means of production and subsistence and the resultant capitalist control over production. Unlike Smith, Marx emphasized the role of fixed rather than circulating capital. However, accumulation was not simply the buildup of means of production, but also the reproduction of capitalist social relations on an wider scale, including expansion across the face of the globe (see COLONIALISM AND IMPERIALISM: CLASSIC TEXTS). This expanded reproduction (growth) inherently involved both regular "revolutionizing" of the conditions of

production (technical change) and the often painful transformation of society (see REPRODUCTION PARADIGM). Marx saw the pain of social change as one factor setting the basis for a new, socialist, system of production. Capitalists face the "coercive laws" imposed by the battle of competition, driving them to accumulate on the pain of extinction.

To Marx this drive was endless, but it could and did run into barriers. As accumulation went beyond these constraints it turned into overaccumulation, which resulted in economic crises. Unlike Smith and his followers, for Marx these limitations were not natural but institutional, based in capitalism's own structure. Though Marx left his theory of crisis very incomplete (see Clarke 1994), his followers have emphasized three different types. First, crises could be due to inadequate growth of wages and consumer demand. Second, crises could be due to external limits set by the supplies of labor power and natural resources (the high employment profit squeeze). Third, crises could be due to the excessive use of means of production (the FALLING RATE OF PROFIT TENDENCY). All three involve "disproportionality," the growth of accumulation out of synchronization with the rest of the economy in a way that disrupts the growth process.

John Maynard Keynes

In contrast the neoclassical school, which arose in the late nineteenth century, did not emphasize accumulation. Heterodox thinkers such as Thorstein VEBLEN, with more dynamic perspectives, were at the margin of the economics profession. However, accumulation re-entered the spotlight towards the middle of the twentieth century. Unlike previous authors, John Maynard KEYNES clearly split the accumulation process into two distinct phases: saving and investment. Keynes rejected the classical view that saving determined investment, and reversed the line of causation. Investment itself was determined by its marginal efficiency, reflecting entrepreneurs' long-term expectations. In this view, increased efforts to save could result in the "paradox of thrift." Investment, on the other hand, helped determine aggregate demand, income received and, thus, the volume of saving.

Kalecki, Robinson and Harrod

Keynes' main analysis was static, ignoring the effects of investment on stocks of means of production and the capacity to produce. A more dynamic framework was developed by Michal KALECKI, Joan Robinson and others. For instance, in the "Cambridge equation" (developed by Kalecki and others), investment also determined the realized profit rate. For Robinson (1962), the profit rate in turn determined the rate of accumulation, implying possible equilibria, where both accumulation and profit rates were determined.

Kalecki stressed the contradictory nature of investment: it not only created demand but also capacity that required further demand increases to allow full utilization. This and other work revived the importance of the accelerator effect and also the application of mathematics to understanding macrodynamics. Within this general framework, the multiplier–accelerator approach stressed the possibilities of cyclical instability, while the growth models developed by Roy Harrod and Evsey Domar emphasized the "knife-edge" instability of macroeconomic growth (see HARROD'S INSTABILITY PRINCIPLE AND TRADE CYCLES). Not only is it unlikely that the entrepreneurs' expected growth rate equals the actual growth rate, as Harrod pointed out, but it is quite possible that the economy could involve spiralling unemployment or inflation.

Neoclassical synthesis

After the Second World War, the early fears of Alvin Hansen and others of secular crisis due to inadequate investment did not seem empirically reasonable (though these views were later echoed by the monopoly capital school; see MONOPOLY CAPITALISM). Neoclassical economists created what is often termed the "neoclassical–Keynesian synthesis". Here, full

employment was assured by the intelligent application of macropolicy and/or by the automatic self-adjustment of markets. This allowed a return to Smithian conceptions in which saving determines investment, as in the Solow–Swan growth model, based on the use of the now-discredited aggregate production function (see CAPITAL THEORY DEBATES). With this theory, total product rather than the surplus product was the basis for accumulation. This emphasis on full employment growth was also shared in some "Cambridge" models produced by Nicholas Kaldor and Luigi Pasinetti.

Technical change

In Solow Swan growth models, especially as applied in "growth accounting" exercises by Edward Denison and others, much of the growth that occurs is not due to the accumulation of physical capital but due to the accumulation of technical knowledge. Originally unexplained, technical change has been linked to the concept of HUMAN CAPITAL in recent years, as with the "new growth theory" of Paul Romer and others, who apply the aggregate production function. Alternative visions of technical development focus on the way in which abundant demand encourages supply-side growth (see VERDOORN'S LAW) or the way in which investment itself encourages technological change (Kaldor's technical progress function).

See also:

business cycle theories; capital and the wealth of nations; cultural capital; cyclical crisis models; natural capital; profit squeeze analysis of crises; social and organizational capital

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advertising and the sales effort

The essence of capitalism is using money to make more money. Typically, this process entails the purchase of capital goods and raw materials, the hire of labor, the production of some good or service and, finally, the sale of the good or service for a profit. Advertising and the sales effort are those activities which promote this final phase, which Marx referred to as the realization of profits (see CIRCUIT OF SOCIAL CAPITAL). Advertising and the sales effort is one of the key aspects in the competition between firms, and is also fundamental to the overall effort to absorb the production of a demand-constrained economy.

History

In the early stages of the development of market economies, there was little apparent need to undertake much advertising. The reason was simple enough: because of the low level of economic development, the overall demand for goods and services was typically far in excess of the ability of producers to meet that demand. Hence, it is quite reasonable that CLASSICAL POLITICAL ECONOMY almost completely ignored demand as an important variable in the