Capitalism and Contradictions

Overview

This second class is intended to build on the concepts of class struggle within the larger framework of the capitalist mode of production. The relations of productions that define capitalism create a dynamic market system that it is fueled by competition and dependent on constant capital accumulation. But all's not well with the engine of capitalism; its strengths are also its greatest weaknesses. The competition that drives capitalism creates monopolies and crises of overproduction with perpetual cycles of boom and bust. An understanding of the contradictions within capitalism is invaluable for how we organize as socialists. This requires that socialists have a basic understanding of dialectics, the logic of change and contradiction.

Key Terms

Dialectics (philosophy): Dialectics is the method of reasoning which aims to understand things concretely in all their movement, change, and interconnection with their opposite and contradictory sides in unity.

Capital: Capital is money used to buy something only in order to sell it again to realize a financial profit. Capital is money that begets money. [M-C-M']

Capitalism: The socioeconomic system where social relations are based on commodities for exchange, in particular private ownership of the means of production and on the exploitation of wage labor.

Commodity: A commodity is any good or service produced by human labor and offered as a product for general sale on the market. A commodity is something that is produced for the purpose of exchanging for something else, and as such, is the material form given to a fundamental social relation — the exchange of labor.

Money: Money is the commodity used for storing value and acting as a means of payment. That is to say, money is a commodity, but one which has been singled out to play a special role in relation to all other commodities, as the measure of their values. Money is the commodity that serves as a "universal equivalent."

Profit: Profit is the unpaid labor expropriated from workers by a capitalist and distributed by various means among the capitalist class, measured in proportion to the total capital invested. Profit is closely related to surplus value.

Wages: The price of the commodity labor power; the cost required for the maintenance of the laborer as a laborer, and for his education and training as a laborer.

Overproduction: That situation which initiates a period of capitalist crisis or recession, whereby too many goods have been produced, the goods cannot be sold, production grinds to a sudden halt, people lose their jobs, demand drops even further, and the downward cycle accelerates.

Recommended Readings

Ellen Meiksins, "Capital's Gravediggers," Jacobin Excerpt

Premise

This article argues for a historically specific definition of capitalism as an economic system where all actors are dependent on the market. Capitalism can be understood as a system driven by market imperatives: the compulsions of competition, profit-maximization, capital accumulation, and a relentless imperative to improve the productivity of labor.

Key Points

- Capitalism is a system in which all major economic actors are dependent on the market for their basic requirements of life.
- Both capitalists and workers are dependent on the market. The market mediates the relation between capital and labor.
- Capitalist profits are realized in the market. Capitalists pay workers in advance and must realize their gains by selling what workers produce. Profit depends on the difference between what the capitalist pays workers and what they realize from the sale of the products and services supplied by the workers.

- Capitalist profits are never a certainty. To make a profit, a capitalist must find a buyer on the market who is willing to purchase the commodity for more than than the cost of production.
- Competition is the driving force of capitalism. Capitalists must also compete successfully with other capitalists in the same market in order to secure a profit.
- Markets are unpredictable. The factors that influence prices are out of the immediate control of individual capitalists. Capitalists do not know whether they will be able to sell a commodity, or the price it will sell for, before bringing it to the market.
- Profits depend on a favorable price/cost ratio. Capitalists can control production costs to certain degree. They will do everything possible to cut costs to ensure a profit. This means cutting costs of labor and a constant investment in technology that increased productivity.
- Capitalism is driven by market imperatives. Capitalists must adopt profit maximizing strategies to stay in business. The compulsions of competition, profit-maximization, capital accumulation, and a relentless imperative to improve the productivity of labor so as to reduce costs in order to reduce prices.
- There is difference between market imperatives and market opportunities. Other societies have had markets, often on a large scale, but only in capitalism is market dependence the fundamental condition of life for everyone.

- Many highly developed commercial societies have emerged throughout history but were not subject to the specifically capitalist principles of constantly accumulating to meet constant competition.
- The essential difference between non-capitalist commercial societies and an economy driven by the market imperative to enhance competitiveness by increasing labor productivity.
- With capitalist relations, a decline in market opportunities leads to an increase in productive investment in new technologies to enhance labor productivity and cost-effectiveness.

John Molyneux "The Marxist Dialectic" and "The Contradictions of Capitalism"

Premise

The first essay briefly describes the dialectics, the logic of change and contradiction. Marx combined dialectics and materialism in a new synthesis and to develop a materialist theory of history and understand the capitalist mode of production. Capitalism is a system filled with contradictions; they are both the source of its awesome power and its fundamental weaknesses.

Key Points

Dialectics is the logic of change; it always deals with complex interactions and contradictions.

- The philosophical starting point of dialectics is that everything, is moving and changing. Whereas formal logic deals with fixed states or things (A = A, A ≠ non-A)
- Dialectical logic moves beyond formal logic by starting not with "things" but with processes, processes of coming into being and passing out of being. The moment processes of change are fed into the equation it becomes necessary to deal with contradiction.
- The unity of opposites: every existing "thing" or "state" is both a unity and a conflict of opposites, i.e. it is a temporary balance or moment of equilibrium between the forces that brought that state into being and maintain it and the forces that will bring about its dissolution or transformation.
- Quality and quantity: every process of change involves an accumulation of gradual or quantitative changes within an existing state, which at a certain point turn into a qualitative change in which the nature of that state is transformed.
- The negation of the negation: in every process of change the "negative" or revolutionary force which brings about the change is itself transformed or "negated" so that a new state, a new unity of opposites, emerges.
- Dialectics is useful for analyzing and effecting processes of social change and especially revolutionary change.

Capitalism is a mass of interlocking contradictions.

- **Large-scale production based on alienated labor**: Production is on a massive scale, yet workers have no control over what is produced and to what ends it is used.
- **Capital-labor relationship**: Capitalist profits are based on the exploitation of the working class. Capitalists need workers to create their profits so workers have power too.
- **Competition between capitalist states**: Capitalist production is organized on the basis of competition between rival capitals. Historically this has created imperialist wars between capitalist states.
- **Competition turns into monopoly**: Market imperatives force capitalists to maximize profits by cutting costs and increasing productivity. Free market competition turns into monopoly as unsuccessful businesses are swallowed up by successful ones.
- **Crises of overproduction**: Economic booms lead to overproduction, commodities go unsold, production is reduced with workers losing their jobs, there is even less purchasing power, and a vicious cycle ensues leading to a recession.
- **Responses to the crisis can exacerbate the problem**: Public spending may lead to inflation and a decrease in real wages. Capitalists may by up surpluses for their own consumption but is means that they are not reinvesting in production.

- **The tendency of the rate of profit to fall**: Investment in means of production is often in labor saving technology but surplus value creation is based on the exploitation of workers. investing in new technology which enables it produce more efficiently and sell more cheaply thus, at least temporarily, stealing a march on its rivals. But once the use of the new technology is generalized the temporary advantage is wiped out and the overall rate of profit is reduced.

Supplemental Readings

Ernest Mandel, "Capital and Capitalism," Chapter 2 from An Introduction to Marxist Economic Theory

Capital in pre-capitalist societies (small scale commodity production)

- "Selling in order to buy;" C-M-C
    - The peasants and artisans who bring their products to market wish to sell goods, which have a use value that they themselves cannot use in order to obtain money, means of exchange, for the acquisition of other goods, the use value of which is either necessary to them or deemed more important than the use value of the goods they own.
    - With this transaction there is no change in value between the two extremes.

- "Buying in order to sell;" M-C-M'
    - This type of person goes to market without any commodities; he is an owner of money. Money cannot be sold, but it can be used buy in order to sell, in order to resell.
    - The operation "buy in order to sell" makes sense only if the sale brings a supplementary value, a surplus value. That is why we state here, by way of definition. M' is greater than M and is made up of M+m; m being the surplus value, the amount of increase in the value of M.
- The definition of capital
    - A value which is increased by a surplus value, whether this occurs in the course of commodity circulation, as in the example just given, or in production, as is the case in the capitalist system.
    - Capital, therefore, is every value which is augmented by a surplus value; it therefore exists not only in capitalist society but in any society founded on small-scale commodity production as well in the form of merchant capital.

Origins of the Capitalist Mode of Production

- Separation of the producer from his means of production
- Concentration of the means of production in monopoly form and in the hands of a single social class, the bourgeoisie

- Appearance of a social class which has no possessions save its own hands and no means of subsistence other than the sale of its labor-power

The Fundamental Mechanism of Capitalist Economy

- Competition: Without competition, there is no capitalist society. A society where competition is radically or completely eliminated would no longer be capitalist to the extent that there would no longer be a major economic motive for accumulating capital and consequently for carrying out the economic operations which capitalists execute.
- Basis of competition
    - Unlimited market, the market without restrictions, without exact boundaries
    - Multiplicity of decision centers, above all in matters of investment and production

The Growth in the Organic Composition of Capital

- All capitalist production can be represented in value by the formula: C+V+S
- Constant Capital (C): That part of capital which is transformed into machines, buildings, raw materials, etc., whose value is not increased by production but merely preserved by it.

- Variable Capital (V): The value advanced on wages, which is expended before the value of the commodities produced by the workers in-question can be realized. It is the only part of capital which lets the capitalist increase his capital by means of a surplus value.
- Surplus Value (S): The value created in the process of production
- Competition leads to increased investment in constant capital, C.
    - The fraction C/V is called the organic composition of capital.
    - C/V increases due to competition, more capital invested in machinery than in wages
- The fundamental operation of capitalist economy is the production of surplus value.
    - Realizing surplus value is the necessary condition for the accumulation of capital, and capital accumulation is simply the capitalization of surplus value
    - A part of the surplus value is unproductively consumed by the capitalist
    - A second part of the surplus value is accumulated and is utilized by being transformed into capital

Competition Leads to Concentration and Monopoly

- The concentration of capital is another permanent law of capitalist society
- Free competition produces concentration and concentration produces the opposite of free competition, namely, monopoly
- With monopolies there is no longer a striving for a constant lowering of prices by means of a constant increase in production; it uses the technique of dividing up the market, of setting up market quotas
- Limiting production permits increasing prices, bringing greater profits and consequently increased capital accumulation
- Historically this led to capital exports, which enabled capitalist enterprises to be set up in countries or sectors where monopolies had not yet entrenched themselves

Tendency of the Average Rate of Profit to Decline

- Technological innovation enabled more efficient means of production. Physical productivity would increase as a result, i.e. a greater output would be produced, per unit of capital invested. Simultaneously, however, technological innovations replaced people with machinery, and the organic composition of capital increased.
- Assuming only labor can produce new additional value, this greater physical output would embody a gradually decreasing value and surplus value, relative to the value of production capital invested. In response, the average rate of industrial profit would therefore tend to decline in the longer term.

The Fundamental Contradiction in the Capitalist System and the Periodic Crises of Overproduction

- The market is anarchic, capitalists don't know in advance if their products will find a buyer or what price it will sell for.
- This leads to crises of overproduction which initiates a period of capitalist crisis or recession, whereby too many goods have been produced, the goods cannot be sold, production grinds to a sudden halt, people lose their jobs, demand drops even further, and the downward cycle accelerates.

Wolfgang Streeck, "How will Capitalism End?", New Left Review

Brief Overview

This essay examines the current health of capitalism and concludes it is in a state of advanced decay. The period of low growth since the 1970s show no sign of abating, and recovery from the 2008 crash has been weak. The weak economic performance has caused a crisis of democracy in much of the world. While far-right parties were defeated in the most recent elections in Europe, this may only be temporary. The neoliberal onslaught has weakened the Left so that even if capitalism were to collapse, it is unclear what type of society would be borne from its ashes. The total triumph of capitalism over the mixed economies of Europe, as well as the previous Communist societies, is actually the source of its current malaise. The commodification of labor, nature, and money have reached a threshold where environmental or financial catastrophe looms on the horizon.

Karl Marx, "Wage Labor and Capital," Chapters 8 and 9

Brief Overview

Written by Marx towards the end of 1847, this pamphlet was aimed to be a popular exposition of the basics of how capitalism functioned and the subjugation of wage labor. Engels reissued it in 1891 but with certain changes to take into account Marx's advances in economic theory after 1847. Marx starts by making a few things clear: Workers sell the capitalist their labor power for an amount of money. That money could have been used to buy a certain amount of commodities. So labor power is as much a commodity as, say, sugar. The workers' labor power has been exchanged for an amount of commodities measured by money. The exchange value of labor power as measured by money is its price. Wages are just a special name "for the price of this peculiar commodity which has no other repository than human flesh and blood."

Marx points out labor was not always a commodity and that under capitalism labour takes the form of wage labor, or "free" labor. That is, workers are free to sell their labor power to any capitalist who wishes to buy it, and the capitalist is free to get rid of the worker as soon as there is no profit to be made. But there is a limit to such freedom: "Capital presupposes wage labor; wage labor presupposes capital. They reciprocally condition the existence of each other; they reciprocally bring forth each other."

In the final section, Marx sets out the basic futility and effect of the competition between the capitalists. Capitalists try and drive each other out of business by raising the productivity of labor and cheapening their products. But all that happens is that other capitalists adopt the same mechanisms and processes, resulting in the prices in the once profitable line falling below the labor cost of production. They are all in exactly the same position as before.

Finally, as the capitalists are compelled to exploit the already gigantic means of production on a larger scale, there is a corresponding increase in industrial earthquakes, in which the trading world can only maintain itself by sacrificing a part of wealth, or products and even of productive forces to the gods of the nether world — in a word, crises increase. The world market becomes more and more contracted and fewer and fewer new markets remain available for exploitation, since every preceding crisis has subjected to world trade a market hitherto unconquered or only superficially exploited.

Study Questions

1. What is capitalism? What are its strengths and weaknesses?
2. What motivates the basic economic behavior of capitalists? And for workers?
3. Is it possible for capitalists and workers to reach a compromise and equally share profits? Why or why not?
4. Why are capitalists forced to cut costs and introduce new technologies that improve productivity? What does this mean for the worker? Does technology increase or decrease exploitation of workers?