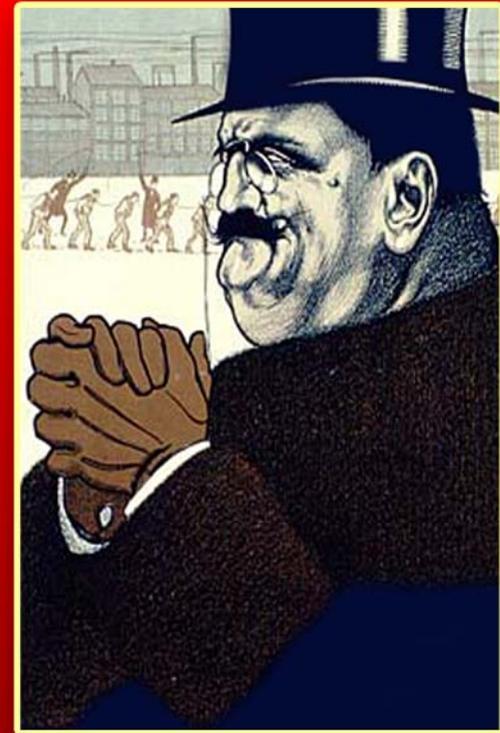




# Marx's Economics for Anarchists:

An Anarchist's Introduction to  
Marx's Critique of Political Economy



by Wayne Price



- ★ Marx, Karl (1967). *Capital: a Critique of Political Economy*; Vol. III: *The Process of Capitalist Production as a Whole* (F. Engels, ed.). NY International Publishers.
- ★ Marx, Karl (1992). *The First International and After: Political Writings*; Vol. I (D. Fernbach, ed.). London: Penguin Books.
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*"The transcripts of the 2006 meetings [of the governors of the Federal Reserve Board and the presidents of the 19 regional banks]... clearly show some of the nation's pre-eminent economic minds did not fully understand the basic mechanics of the economy that they were charged with shepharding. The problem was not a lack of information; it was a lack of comprehension, born in part of their deep confidence in economic forecasting models that turned out to be broken."*

NY Times (January 13, 2012); p. A3.

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**- Crisis: The Great Recession and Since -**

- ★ Daum, Walter, & Richardson, Matthew (Winter 2010). "Marxist Analysis of the Capitalist Crisis: Bankrupt System Drives Toward Depression." *Proletarian Revolution*, No. 82; pp. 48, 35-45, <http://lrp-cofi.org/pdf.html>. [Perhaps the single best statement]
- ★ Goldner, Loren (2008). "The Biggest 'October Surprise' of All: a World Capitalist Crash.", <http://home.earthlink.net/%7Elrgoldner/october.html>
- ★ Mattick, Paul, Jr. (2011). *Business as Usual: The Economic Crisis and the Failure of Capitalism*. London: Reaktion Books.
- ★ Kliman, Andrew (2012). *The Failure of Capitalist Production: Underlying Causes of the Great Recession*. NY: Pluto Press.
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# Marx's Economics for Anarchists:

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## Chapter 1: Introduction

The world is facing upsetting upheavals, with aspects which are political, military, ecological, cultural, and even spiritual. Clearly this includes a deep economic crisis, overlapping with all other problems. We need to understand the nature of the economic crisis if we are to deal with it.

Of the theories about the economy, the two main schools are bourgeois, in the sense that they advocate capitalism. Both the conservative, monetarist, unrestricted-free-market school and the liberal/social democratic Keynesian school exist to justify capitalism and to advise the government how to manage the capitalist economy.

The only developed alternate economic theory is that of Karl Marx. His theory was thought-out to guide the working class in understanding the capitalist system in order to end it (one reason he called his theory a “critique of political economy”). Other radicals, particularly anarchists, developed certain topics relating to economics, such as the possible nature of a post-capitalist economy. But no one, besides Marx, developed an overall analysis of how capitalism worked as an economic system. Therefore I have focused on Marx’s work, even though I am an anarchist and not a Marxist (nor an economist for that matter). By this I mean I do not accept the total worldview developed by Karl Marx and Friedrich Engels, even though I agree with large parts of it.

I make no claims for originality. At most, when there are differing interpretations of Marx’s theory, I may take a minority position. But I am focusing on the theory of Marx, as expressed in the three main volumes of *Capital*, the *Grundrisse*, and a few other works, and in the work of his close collaborator and comrade, Friedrich Engels.

Otherwise I am not covering “Marxist” theory, which includes post-Marx commentators, some of whom disagree with fundamentals of Marx’s views. For example, many self-styled Marxist political economists reject Marx’s labour theory of value. Even more reject his tendency of the rate of profit to fall. Many reject the possibility of state capitalism. Most are *de facto* advocates of state capitalism! (Most social democratic/reformist Marxists call on the existing state to intervene in the economy, in order to bolster capitalism. Most revolutionary Marxists seek to overturn the existing state and to create a new state which would replace the bourgeoisie with state ownership - while maintaining the capital/labour relationship.) At most, I will have to touch on some post-Marx Marxists, as when discussing imperialism and the epoch of capitalist decay.

★ Grossman, Henryk (1992). *The Law of Accumulation and Breakdown of the Capitalist System, Being also a Theory of Crises* (J. Banaji, trans.). London: Pluto Press. [Although an unconventional Stalinist, his brilliant economic theory influenced the libertarian Mattick greatly]

*Another controversial topic is that of state capitalism. Tell me where you stand on state capitalism and I will know what you mean by “socialism.”*

★ Price, Wayne (2010). *Anarchism & Socialism: Reformism or Revolution?* Edmonton, Alberta Canada: thoughtcrime.ink. [Part III is on “The Nature of ‘Communist’ Countries and the Russian Revolution”]

★ Hobson, Christopher Z., & Tabor, Ronald D. (1988). *Trotskyism and the Dilemma of Socialism*. NY/ Westport CT: Greenwood Press. [Includes a section on “The ‘Russian Question’” and one on “The Law of Value and How It Operates in Russia.” I am in agreement with this version of state capitalism and also generally with the version in the next book]

★ Daum, Walter (1990). *The Life and Death of Stalinism: a Resurrection of Marxist Theory*. NY: Socialist Voice. [Although from an unorthodox Trotskyist viewpoint, it has very useful discussions about several topics, including the epoch of capitalist decay]

*For Marx’s strategy of “Permanent Revolution”:*

★ Draper, Hal (1978). *Karl Marx’s Theory of Revolution: Vol II; The Politics of Social Classes*. NY/ London: Monthly Review Press.

*For what Marx and Engels really meant by the “dictatorship of the proletariat”:*

★ Draper, Hal (1986). *Karl Marx’s Theory of Revolution: Vol. III: The “Dictatorship of the Proletariat.”* NY/ London: Monthly Review Press.

★ Draper, Hal (1987). *The “Dictatorship of the Proletariat”: from Marx to Lenin*. NY: Monthly Review Press.

★ Price, Wayne (2007). *The Abolition of the State: Anarchist and Marxist Perspectives*. Bloomington IN: Authorhouse. [Chapter 4: “The Marxist transitional state.”]

*For Marx and Engels’ views on ecology:*

★ Foster, John Bellamy (2000). *Marx’s Ecology: Materialism and Nature*. NY: Monthly Review Press [Foster has written several books on Marxism and ecology]

## References for Further Reading

The following are suggestions for further reading. They include, (1) books for further introductory study of Marx's economic theory. One or more of these might be read alongside of reading Marx's *Capital*, preferably in a study group. (2) books on controversial topics in Marx's theory, subjects which I did not go far into in this introductory text. (3) applications of Marx's theory to the current economic situation - the Great Recession and afterward.

These are books I have on my shelves and which appeal to me, even though I do not always agree with all the theories of the authors. The introductory books are valued for being clearly written and covering the basic issues.

### - Introductory Readings -

- ★ Leontiev, A. (undated). *Political Economy: a Beginners' Course*. San Francisco: Proletarian Publishers. [a "third period" Stalinist, with an exceptionally clear presentation of the basics of Marx's economic theory]
- ★ Cleaver, Harry (2000). *Reading Capital Politically*. San Francisco: AK Press/ Anti-Theses. [A small book which derives Marxist economics entirely from Chapter 1 of *Capital I*]
- ★ Fine, Ben, & Saad-Filho, Alfredo (2010). *Marx's "Capital"; (5th Ed.)*, London/ NY: Pluto Press.
- ★ Harvey, David (2010). *A Companion to Marx's Capital*. London/ NY: Verso.

### - Disputed Topics in Marx's Economic Theory -

*The major area of controversy in the theory of Marx's critique of political economy revolves around the question of value: the labour theory of value, the "transformation problem" (value into prices), the tendency of the rate of profit to fall, business cycles and their crashes.. The single best book, which is up-to-date on current arguments, is the first book below.*

- ★ Kliman, Andrew (2007). *Reclaiming Marx's "Capital": A Refutation of the Myth of Inconsistency*. Lanham MD: Lexington Books/ Rowman & Littlefield.
- ★ Mattick, Paul (1969). *Marx and Keynes: the Limits of the Mixed Economy*. Boston MA: Extending Horizons/ Porter Sargent. [Other books by Paul Mattick, Sr., are well worth reading; he was a leading economist of the libertarian Marxist "council communist" trend]

There have been many versions of Introductions to Marxist Economics, starting with Marx himself, in his *Value, Price, and Profit* and *Wage-Labour and Capital*, not to mention vast numbers of more sophisticated works on the topic. Very rarely has there been anything on this topic by an anarchist, written for anarchists and other libertarian socialists. I suspect it may be useful today.

### ★ Can Anarchists Learn from Marx?

Yet how can anarchists learn anything from Marxists? The First International was torn apart in a bitter faction fight between the followers of Marx and those of Michael Bakunin, the founder of anarchism as a movement. The Second (Socialist) International did not let anarchists join. Following the Russian Revolution, the regime of Lenin and Trotsky had anarchists arrested and shot. In the Spanish revolution of the 1930s, the Stalinists betrayed and murdered the anarchists. More generally, the Marxist movement has led, first, to social-democratic reformism and support for Western imperialism, and, second, to mass-murdering, totalitarian, state capitalism (miscalled "Communism"). Finally it collapsed back into traditional capitalism.

But both Marxism and anarchism grew out of the 19<sup>th</sup> century socialist and working class movements. Both had the same goals of the end of capitalism, of classes, of the state, of war, and of all other oppressions. Both focused on the working class as the agent of revolutionary change, in alliance with other oppressed parts of the population.

Yet anarchists rejected Marx's concepts of the transitional state ("the dictatorship of the proletariat"), of a nationalised and centralised post-capitalist economy, of the strategy of building electoral parties, and of the tendency toward teleological determinism. Instead, anarchists sought to replace the state with non-state federations of workers' councils and community assemblies, to replace the military and police with a democratically-organised armed people (a militia), and to replace capitalism with federations of self-managed workplaces, industries, and communes, democratically planned from the bottom-up.

However, many anarchists expressed appreciation for Marx's economic theory. This began with Bakunin and continues to today. They believed that it was possible to unhook it from Marx's political strategy. For example, Cindy Milstein, an influential US anarchist, wrote in *Anarchism and its Aspirations*, "More than anyone, Karl Marx grasped the essential character of what would become a hegemonic social structure - articulated most compellingly in his *Capital*..." (2010; p. 21).

Some radicals have argued that there was two sides to Marxism (Marx's Marxism that is) - and I agree. One side was libertarian, democratic, humanistic, and proletarian, and another side was authoritarian, statist, and bureaucratic; one side was scientific and one side was determinist and scientific (pseudo-scientific). From this viewpoint, Stalinist totalitarians had used both sides of Marx's Marxism, not only the centralising, authoritarian aspects, but even the positive, libertarian and humanistic aspects, in order to paint an attractive face over their monstrous reality.

So they have misled hundreds of millions of workers and peasants in mass movements which thought they were fighting for a better world.

Does that mean that libertarian socialists should reject all of Marx's work, even those positive aspects? What is the alternative? If we reject Marx's system, we are essentially left with bourgeois economic theory, rationalisations of a social system which also has a history of bloodshed, mass suffering, tyranny (including racial oppression and Nazi genocide), and two world wars. This is not a superior record to that of Marxism.

There has long been a minority trend within Marxism which has based itself on the humanistic and libertarian-democratic aspects of Marx's concepts. This goes back to William Morris, the Britisher who worked with Engels while being a friend of Peter Kropotkin. It continues to today's "autonomist" Marxists. The version of Marxist economics I learned was heavily influenced by the "Johnson-Forrest Tendency" (C.L.R. James and Raya Dunayevskaya) and by Paul Mattick (of the "council communists").

I am not arguing here whether these libertarian Marxists were "correct" in their understanding of Marxism, as opposed to the authoritarianism of Marxist-Leninists. I am only pointing out, empirically, that it was possible for some to combine Marxist economics with a politics which was essentially the same as anarchism. I draw the conclusion that it is possible for anarchists to learn from Marx's critique of political economy.

## ★ Was Marx a Plagiarist?

There is one other complaint about Marx's political economy sometimes raised by anarchists. Some argue that Marx did not invent his theory by himself but learned it mostly from other thinkers, including Pierre-Joseph Proudhon, the first person to call himself an "anarchist." They denounce Marx as a plagiarist.

There is no question but that Marx made a thorough study of thinkers who went before him, including bourgeois political economists and socialist writers. His writings, published and unpublished, often read like dialogues between himself and earlier economists (e.g., his *Theories of Surplus Value*, the "fourth volume" of *Capital*). This is another part of what he meant by his "critique of political economy." He claimed to go beyond them but he never denied that he built on earlier thinkers. Some political economists he respected (particularly those in the line from Adam Smith to David Ricardo). Others he despised (the pure apologists whom he called "prize-fighters").

When Marx and Engels first read Proudhon, and then met him in France, they were impressed. Coming from the background of a working artisan, Proudhon had developed a critique of capitalism and a concept of socialism. The two young, middle-class, radicals learned from him. In *The Holy Family* (the first really "Marxist" book), Marx and Engels commented on Proudhon's 1840 *What is Property?*:

building up counter-institutions which will eventually replace the state and capitalism - essentially the old strategy of Proudhon. It is disappointing to me that even many who identify with the autonomous (libertarian) trend in Marxism similarly have come to reject proletarian revolution. Certainly not all, but many have replaced the working class with a concept of the "multitude," or they water down the "proletariat" to include almost everyone. They reject revolution (popular insurrection overturning the state - which may be more-or-less violent in self-defence) in favour of somehow withdrawing from capitalism, a strategy they call "exodus."

Whatever the faults and limitations of Marx and Engels, Bakunin and Kropotkin, they were correct in advocating working class revolution. Despite their disagreements and their flaws, we stand on their shoulders. We build on their work. Workers' revolution is the only road to a classless, stateless, non-oppressive society, democratic and co-operative, of freely associated individuals, "in which the free development of each is the precondition for the free development of all."

- but which threatens total destruction if not taken out of the hands of the ruling class. And there is an international, socialised, working class which is capable – potentially - of really achieving an unalienated society.

But the old pressures are still there. Whatever makes a movement vulnerable to becoming elitist, authoritarian, and undemocratic, weakens the revolutionary libertarian aspects of the movement. So it has proved with Marxism, despite its contributions. Then even the genuinely liberatory aspects of the theory, including its scientific critique of political economy, can be misused by the new elite. The bureaucrats used even the truly democratic-libertarian aspects of Marxism to cover up the reality of state-capitalist tyranny. “Marxism” served as a distraction and a rationalisation.

## ★ Libertarian Marxism

There is a range of people who accept Marx’s views and generally agree with his strategy of international proletarian revolution, but who also are anti-statist and close to anarchism in several ways. They are referred to as libertarian Marxists or autonomist Marxists or Left Communists or libertarian communists (the latter two terms do not clearly distinguish between anarchist-communists and far-left Marxists). They reject both Leninism and social democracy. These groups include the council communists, the Johnson-Forrest tendency (C.L.R. James, Raya Dunayevskya, and Grace Lee Boggs), Italian workerists, autonomes, early Socialisme ou Barbarie (Castoriadis), the British Solidarity Group, and others.

I do not have the time or space to examine these trends closely here. Their main virtue, to me, should be clear: that they use Marx’s critique of political economy while rejecting statist interpretations.

On the other hand, while remaining Marxists they fail to analyze sufficiently how Marxism developed such totalitarian trends. They lack a critique of Marxism. Some are, in a way, Leninists (Lenin was once right but conditions have changed: the view of the Johnson-Forest tendency, still held by followers of Dunayevskaya). Others are not, but still hold to centralising or to non-moralising determinism. Some are close to the Bordigist trend, which was far left but also centralising and opposed to democracy.

At the same time, many such autonomous Marxists make the same mistakes as many anarchists. They often oppose building specific organisations of like-minded revolutionaries to participate in broader groupings. Many oppose participating in labour unions (even while opposing the bureaucrats), national liberation struggles (even while opposing the program of nationalism), or any type of united fronts, on principle. (But I think them correct in opposing electoralism.) That these are problematic politics are, obviously, my opinions; many anarchists agree with such politics.

Today many, perhaps most, radicals who regard themselves as anarchists do not accept a revolutionary proletarian strategy. They believe in gradually and peacefully

*“Proudhon subjects private property, which is the basis of political economy, to a critical examination... That is the great scientific progress that he has achieved, a progress which revolutionises political economy and which present, for the first time, the possibility of making political economy a true science... Proudhon does not only write in the interest of the proletarians, he is a proletarian himself.”* (quoted in Jackson, 1962; p. 47)

Later on, Marx and Engels became political and theoretical opponents of Proudhon. Marx attacked his views in *The Poverty of Philosophy*, as did Engels in *The Housing Question*. I am not going to get into the theoretical questions raised there; I believe that Marx and Engels learned from Proudhon and then developed past him in certain ways. Bakunin stated:

*“There is a good deal of truth in the merciless critique [Marx] directed against Proudhon... Proudhon remained an idealist and a metaphysician. His starting point is the abstract idea of right. From right he proceeds to economic fact, while Marx, by contrast, advanced and proved the incontrovertible truth... that economic fact has always preceded legal and political right. The exposition and demonstration of that truth constitutes one of Marx’s principal contributions to science.”* (in Leier, 2006: p.230)

Beside immediate economic theory, Proudhon opposed labour unions and strikes, let alone working class revolution. But, Proudhon worked out a concept of decentralised-federalist socialism, which was contrary to Marx’s centralist statism. Proudhon’s concept was important in the development of revolutionary anarchism.

However, the whole discussion is pointless. The key question should be whether or not Marx’s economic theory is a good theory, useful for understanding the capitalist economy, and useful for developing political reactions to it. Whether or how much Marx learned from others is irrelevant. If he got good ideas from Proudhon, then good for him.

## ★ Critique of Political Economy?

There is some dispute over whether to refer to “Marx’s economics,” “Marx’s political economy,” or “Marx’s critique of political economy.” As to the first, Marx discussed the production and distribution of commodities and other topics which are typical of subjects covered by texts on “economics.” At the same time, his goals and interests were entirely different from those of bourgeois economists: not to make the system work better but to overthrow it.

As for “political economy,” this was a term taken from Aristotle, who distinguished between “domestic economy” (of the household and the farm) and “political economy” (of the polis - the overall community). Early bourgeois economists picked up the term. They connected their analysis of economics with the role of classes and

the state. Modern radicals often like to use the term in order to emphasise that they are integrating production and consumption with the role of the state and the social totality. Yet Marx himself generally used “political economy” as a synonym for bourgeois economics.

Marx preferred to use the phrase, “critique of political economy.” It was the title or subtitle of several of his books (including *Capital*). The term “critique” meant “a critical analysis,” examining the positive and negative aspects of something, in their interactions. He was the enemy of the political economists, however much he respected a few of them for their insights. He was the opponent of the system he was examining - and exposing. Some Marxists today prefer to say they are furthering the “critique of political economy.” Yet it does seem a lengthy and somewhat awkward phrase.

I use all three terms for Marx’s economic theory. But it is essential to keep in mind that what we are doing is an attack on bourgeois economic theory and on the capitalist economy. In a very real sense, the whole of Marx’s *Capital* was a justification for what he wrote as the conclusion of the *Communist Manifesto*, “*The proletarians have nothing to lose but their chains. They have a world to win. Workers of all countries unite!*” and what he wrote as the first “rule” of the First International, “*The emancipation of the working classes must be conquered by the working classes themselves.*”

Marxist movement to any sort of ideal values, so that the workers will fight for socialism because the workers will fight for socialism, not because it is the morally right thing to do. Therefore there is no need to say much about what a socialist society would look like, as a goal to aim for, because it can be relied on to happen, to work itself out.

As I have shown, there were alternatives to this view in Marx’s Marxism, a belief that there were not one but (at least) two possibilities, which required a moral choice. But this was not emphasised in their overall work and was easy to miss. Similarly, by scouring their writings, it is possible to find elements of a vision of a liberated communist society. It would be without a mental-manual division of labour, ecologically balanced, without a state, etc. But this too was rarely raised. Nor was there any effort to refer to a moral standard and ethical goals.

So what happens when what history produces is a totalitarian mass-murdering state-capitalist nightmare which calls itself “socialist”? Most revolutionary Marxists decided that since this was what came out of the historical process, it must be “actually existing socialism.” So it had to be accepted. The idea of comparing it to a vision of a free association of co-operating individuals did not come up; for most Marxists, there was no such vision.

Marx presented his thinking as an integral whole. “Marxism” (or “scientific socialism”) included the critique of political economy (my topic here). It included a broader background method for studying society: historical materialism. It included a philosophical approach: dialectical materialism. It included practical political strategies: building workers’ electoral parties, as well as labour unions.

This was a total world-view, justified because it was going to be the world-view of a rising new class, the proletariat. (Actually the bourgeoisie, the current ruling class, had more than one philosophy, economic theory, and political strategy, so it should be possible for the workers to have more than one set of views also.) It is because I cannot accept the totality of this world-view that I do not regard myself as a Marxist. (I call myself a “Marxist-informed anarchist.”)

As it turned out, Marxism, or something calling itself “Marxism,” did become the ideology of a rising new class all right: the state-capitalist collective bureaucracy.

Within the growing managerial and bureaucratic layer of capitalism, a section became radicalised, rejecting rule by the traditional bourgeoisie. Instead they saw themselves as the new (benevolent) rulers. For them, a variety of Marxism became a justifying ideology and a guide to power. In the “Communist” countries, Marxism became a rationalisation for keeping power. This development had been predicted by Bakunin and Kropotkin.

I do not at all deny the sincerity of Marx and Engels’ libertarian-democratic, humanistic, and proletarian views. This was - and remains - a real and valuable aspect of Marx and Engel’s Marxism. But throughout history class society had corrupted movements for liberation, turning them into tools of elites striving to replace the old rulers with themselves, using the people as a battering ram against the old rulers. Given the low level of productivity, it had to be so. But now it is possible to win real human liberation. There is a technology which could provide plenty for all

state. Under Stalin, this evolved into totalitarian state capitalisms which murdered tens of millions of workers and peasants around the world. Finally these economies collapsed into traditional capitalism.

Marxism was not supposed to be a religious faith but a materialist praxis. As Engels liked to say, “The proof of the pudding is in the eating.” How did something which seemed to have such good goals, good values, and good theory repeatedly end up so badly? What does that tell us about the theory?

It may be argued that anarchism also has its failures. No more than Marxism did it ever lead the workers to socialist revolution. There were racist and authoritarian aspects to the views of Proudhon and Bakunin. Kropotkin betrayed anarchism by supporting the Allied imperialists in World War I. In the Spanish revolution of 1936-39, the mainstream anarchists abandoned their program and betrayed the working class by joining the liberal bourgeois government. They held back the workers’ revolution, resulting in the victory of Spanish fascism. This and more is true. Much needs to be done to improve anarchist theory and practice. (This work is a small contribution to that goal). At least anarchism did not murder tens of millions of working people in the name of communism.

In this work, I have referred to problems with Marx’s theory. One is his centralism. His vision of socialism in certain ways seems to be a purified capitalism. It would build on the collectivisation and socialisation of labour which are created by capitalist semi-monopolisation and statification. These will be pulled together into a centralised agency (presumably run by a minority in a centre) which will develop a vast overall plan covering the whole economy. For all his writing about “freely associated individuals,” he never considered the possibility of a decentralised, bottom-up, form of democratic economic planning. At most he advocated an improved representative democracy, at work and in the community. But he never conceived of rooting it in face-to-face direct democracy

The problem is not crude statism as such. Marx did not worship the state or advocate totalitarianism. But he was influenced by the Jacobin tradition in European leftism. The state seemed to him to be the natural institution to integrate the whole economy, as it tended to do even under capitalism. Therefore it made sense to use it (or to create a new state), which would then evolve into a non-state, non-coercive, public structure. This view was tied to the main tactical difference between Marx and the anarchists in the First International, namely that he wanted it to sponsor workers’ parties throughout Europe, to run for government offices, and they opposed this. I think that Marx’s pro-centralisation, pro-state, view played a major role in the post-Marx Marxists developing authoritarian visions of socialism and authoritarian politics in general.

Another main factor in the degeneration of post-Marx Marxism was somewhat more philosophical and subtle. It was the concept of capitalism moving “inevitably” and “inexorably” to socialism. The wheels grind on; the workers develop class consciousness sort of as a by-product, capitalism moves into crisis, and the workers revolt, creating the lower phase of communism. (This has been critiqued by Ron Tabor; 2004.) This automatism is tied to Marx’s non-moralism, his failure to connect the

## Chapter 2:

# The Labour Theory of Value

### ★ Marx’s Method

Before confronting Marx’s theory, it is important to say something about his method. I am not going to discuss “dialectical materialism.” Instead, I will start with Marx’s belief that what we empirically perceive with our senses is just the surface of reality. The sun truly appears to go from east to west in the sky, over the flat earth, and we rightly guide ourselves by this when we travel for most distances - but there is more to reality.

When I touch the top of a table, it feels hard and solid, and it is (it resists the pressure of my hand). But it is also true that the table is mostly empty space composed of whirling subatomic particles. So too with society. There is surface and there is depth beneath the surface. Both are valid parts of reality.

How do we find out, scientifically, what is behind the obvious surface? We cannot bring the economy into a laboratory, nor can we do controlled experiments (not ethically, anyway). Marx’s method is *abstraction*. Mentally he abstracts (takes out) aspects of the whole gestalt while temporarily ignoring other aspects of complex reality. The very field of economics is an abstraction, because it separates out (in our minds) processes of production and consumption from other social processes, such as art and culture.

Using abstractions, he built mental models of the economy. For example, he postulated a society with just an industrial capitalist class and the modern working class, but with no landlords, no peasants, no merchant capitalists, no bankers, no middle classes, etc. Creating such a model (of a capitalism which never existed and never will exist), he explored how it might work. He wound it up and saw how it goes. Gradually he added more and more aspects of the actual society to his models (such as other classes). Hopefully this gives insight into how the complex, messy, real whole society works. It is abstraction which has permitted Marx’s critique of economics to remain relevant, after a century and a half. Capitalism still survives and its basic structure is still in operation.

What Marx was looking for is the underlying, recurring, patterns of mass behaviour which are called economic “laws.” But these laws never appear in pure form in the actual society, being interfered with, mediated, and countered by other forces. They show up in the long run, overall, and in modified form. I will show this when I exam-

ine the “law of value” and the “falling rate of profit.” Therefore Marx repeatedly said that economic “laws” are more properly seen as “tendencies.” To see how they really work out, each situation must be analyzed in its concreteness.

### ★ Three Factors?

In bourgeois economics, production (in every economic system) requires three “factors.” These are land (not just soil but all natural resources), labour (people), and capital (here meaning tools, machines, buildings, etc.). Each factor must be paid for: today this means rent for land, wages for labour, and interest for capital. Since all three factors contribute to production and all are paid for, there is supposedly no exploitation.

Yet, if this three-factor model applies to all societies, it must apply to feudalism, to classical slavery, and to whatever sort of society existed in ancient China. All of which were exploitative societies. A few lived on the labour of the many. A minimum amount of the people’s work went to feed and clothe themselves and a maximum of their work went to support the ruling classes.

Marx claimed that this was also true for the modern working class, the “proletariat” (a term from ancient Rome, where it meant “those who [do nothing but] breed”). Capitalism looked, on the surface, like a society based on equality, but Marx sought to demonstrate (by his critique) that it was as exploitative a system as slavery - that the capitalist class also lived off the surplus labour of the workers.

### ★ Alienation and Fetishism

Fundamental to Marx’s views was the concept of *alienation* (estrangement). As he saw it, what made people human was our capacity to produce, to create what we need out of the environment, using our physical and mental labour. But capitalism, in particular, workers are forced to labour, not for themselves but for someone else, indeed for *something* else, namely capital. The harder they work, the stronger and richer becomes capital which rules over them, drains them of their energy, and increases its power, due to their efforts. This is alienated labour. All the institutions of society are alienated, powers ruling over the working class due to what the working class has given them. People are reified (thing-ified) while things are seen as alive.

This is similar to “projective identification” (a social psychological form of alienation). People feel empty, hollow, and weak. They project their actual inner strength into some symbol or institution: the flag, the leader, a nation, a football team, or their version of God. By identifying (joining) with this image, they can re-access their strength and feel whole again, for a while.

Fans feel great when “their team” wins, sad when it loses. Patriotic US workers, suffering in their daily lives, cheer themselves up by chanting in groups, “USA! USA!

profit, which changes the value composition of the commodity - from the value of constant capital + the value of variable capital + the value of surplus value into the values of constant + variable capitals + the value of the average rate of profit (the new form being the “price of production”).

I have discussed Marx’s views on the growth of giant corporations and the trend toward statification, both of which affect the growth of fictitious value - and prices. “Subjective individual choices” are also already included in the theory, in that (1) the commodity must have a use-value in order to have an exchange value, that is, someone must want to buy it, and (2) prices are assumed to fluctuate (around the price of production) according to supply and demand - demand being the sum of “subjective choices.”

Micro-economists, studying how a firm creates prices, can skip the calculations about labour-time and value. Certainly a business-person will not deal with it. They aim to get back what it cost them to produce the commodities plus at least an average amount of profit; they seek to get as much work out of their workers as possible and to pay the workers as little as they can get away with. This much they know, but basically they stay on the surface of price setting, which is appropriate for what they are doing.

But Marx was not interested in individual prices. He studied the overall functioning of a society, how it generated profits, what caused its crises, how its firms would evolve overall, and how it could be expected to treat its workers. His purposes were to educate the workers as to what capitalism was doing, to warn them of its dangers, and to aid them in overthrowing capitalism (all purposes common to revolutionary anarchism). For these purposes, the labour theory of value is very useful. The multi-causal theory of price-creation of Kropotkin and Berkman, cited above, while superficially true, does not even tell us where profits come from or whether workers are exploited.

### ★ The Problem with Marxism

Kropotkin’s criticism of Marx’s economics was a failure. However, we are still left with a problem. Marxism came out of the same socialist and working class movements as anarchism did, and it shares many of the same values and goals. Its critique of political economy is valuable for understanding the economy and fighting capitalism. This is what I have been saying in this book.

Yet Marxism’s history, as a movement, has been gruesome. To repeat, the Social-Democratic parties, directly influenced by Marx and Engels, became reformist, statist, counter-revolutionary, and pro-imperialist. They supported their warring imperialist states in World War I and fought against the Russian and German revolutions afterwards. They failed to fight the rise of fascism. In the Cold War they supported Western imperialism and abandoned all claims to be for a new type of society.

Lenin, Trotsky, and others tried to revive revolutionary Marxism during World War I and after, with the Russian revolution. Instead they established a one-party police

the predestined course of human affairs than one can change the course of the stars. What then? What has anarchy to do with this?" (1984; pp. 41, 44) (It is precisely to get around this rigidity of mechanical materialism that Marx used materialist dialectics; how successful he was is another question.)

In this essay, Kropotkin has a section on "Economic Laws." He gave his understanding of what economics was about. "... Political economy ... ought to occupy with respect to human societies a place in science similar to that held by physiology in relation to plants and animals... It should aim at studying the needs of society and the various means... for their satisfaction... It should concern itself with the discovery of means for the satisfaction of those needs...." (p. 180)

This is a peculiar definition. Again, like Marx and Engels, Kropotkin denies a fundamental difference between the physical sciences and the social sciences (the role of consciousness). Even so, he leaves out a fundamental aspect of science, namely the objective study of how things function. In particular, he does not mention what is of great importance to Marx, the examination of how capitalism works. Instead he jumps to the question of how to organise an economy which would satisfy people's needs. (See Bakunin's comparison of Proudhon and Marx quoted in chapter 1.) This is a fine subject to work on, and Marx may justly be criticised for not doing much of this. But it still does not substitute for an examination of how capitalism works and what its tendencies are.

Kropotkin goes on to criticize "economists of both the middle-class and the social-democratic camps... socialist political economy...." (p. 179) It is plain that he means the Marxists by the latter. He specifically criticizes them for their labour theory of value. He claims that they maintain, "In a perfectly free market the price of commodities is measured by the amount of labour socially necessary for their production" (p. 177). He claims that this "... is being presented with wonderful naïveté' as an invariable law" (p. 178). Actually, he points out, the relation among labour-time, exchange value, and price, like other scientific laws, "... is very complex... Every law of nature has a conditional character." (pp. 178-179) Which is true, but, as I have repeatedly noted, Marx showed that all his political-economic "laws" are highly modified in practice and affected by counteracting forces. They always appear, he stated, only as "tendencies." This whole criticism is based on ignorance of Marx's method.

Kropotkin's criticisms of Marx's economic theory are summarised, "... Kropotkin believed that both subjective utility and exchange value shaped prices, but he added that power relations also played an important role. [Alexander] Berkman developed the point, arguing that prices were not simply a reflection of subjective individual choices or objective exchange values. Prices were affected by labour time, by levels of supply and demand, and were also manipulated by powerful monopolies and the state". (van der Walt & Schmidt, 2009; p. 90)

The problem with this "criticism" of Marx's theory is that it is completely correct - and already part of the theory. I explained this in chapter 2. The "transformation" of values (socially necessary labour time) into monetary prices is affected by a number of things. In particular, Kropotkin and Berkman leave out the average rate of

We're Number One!". Religious people feel good when they relate to their version of God, perhaps in opposition to other people's God. People at the bottom of society look up to leaders (on the left or on the right) who claim to be able to fix things for them. Projective identification may be harmless (when cheering a sports team) or vicious (when worshipping leaders such as Hitler).

The great US socialist, Eugene V. Debs, summed up the problem of this alienated worship of leaders, in 1905, "Too long have the workers of the world waited for some Moses to lead them out of bondage. I would not lead you out if I could; for if you could be led out, you could be led back again. I would have you make up your minds that there is nothing that you cannot do for yourselves." This is the same as Marx's "The emancipation of the working class must be won by the workers themselves."

Focusing on political economy, Marx discussed the "fetishism" of commodities. Early people worshipped idols and special objects (fetishes), regarding them as real, powerful, personalities. So too do people in bourgeois society treat objects as if they were alive and powerful. They treat commodities as active agents which exchange with each other. They treat "land" and "capital" as subjective beings which interact with "labour." Marx's critique sees through the alienation to the reality that it is people who are interacting with each other, through their use of machines and objects, and not the other way around.

## ★ The Nature of Value

Commodities - objects produced for sale - have two aspects. Each commodity is a specific object. It has its own use, as a baseball or hammer, or whatever, and it was made in a specific way with specific machines and a specific labour process. But also, each commodity is worth a certain amount of money. Numbers can be attached to each object, not referring to its weight, say, but to its value: \$1, \$10, or \$1 million. To coin a word, every commodity is money-fiable. This is important, because the capitalist management of a business does not really care what the use ("use-value" or "utility") is of the commodities they make. They are not going to play with the baseballs or build with the hammers they produce. They only care that someone else finds the baseball or hammer useful and therefore is willing to buy it. But for themselves, the capitalists only want money. They produce baseballs and hammers in order to end up with more money than they started out with when they hired workers and bought machinery and raw materials. That is, they seek to expand the total value they have, not to increase society's share of useful goods. This is why capitalists are willing to kill the last whales. When they are done, they could take their profits and invest in something else to make more money, such as cutting down redwoods.

What then is this value which all commodities have, which makes them able to have a monetary value (price)? *There is something which is not money in itself but which can be expressed in money.* Some claim that it is generalised utility (use-value). But air is the most useful stuff around, and it has no price. Theories have

been developed to get around this, mixing utility with scarcity and with satiety (the theory of “marginal utility”). But the use value of any object (aside from air) is very subjective. Even regarding food and drink, which all must have, people vary enormously in their tastes. How then does a society develop a unified set of prices for all objects? And, to repeat, the capitalist producers are not really interested in the utility of their products, once they know that someone else will want them.

Scarcity and utility may make a difference in the short run. Some years ago there was a sudden mass desire for a particular toy for Christmas presents: the Tickle-Me Elmo doll. Unfortunately, the producers had not made enough for the market. So the price shot up. But over time, as producers saw that something was wanted and there were not enough of it, they expanded production of the dolls until they matched demand (or went beyond it). That is, the tendency of capitalist production, over time, is to match supply to demand, overcoming scarcity.

Of course, there are some things which remain scarce, no matter how much money is offered. There will be no more Rembrandts (although market pressure does inspire forgers). Paintings are not a major part of the economy, but other things may be. I will discuss monopoly later (both natural - as in the Rembrandts - and artificial - as in diamonds which are deliberately kept rare). This becomes a serious problem when non-renewable natural resources are treated by the capitalist economy as though they were commodities of which more could be produced at need (like the whales or oil). This is how capitalism operates.

Marx said that what commodities had in common was labour. People worked to produce them. Commodities could be regarded as if they were condensed versions of the work which went into them. This is not the whole of his analysis of value and price, but it is the beginning of it.

Marx did not make an elaborate argument for his labour theory of value or for the “law of value” (that commodities exchange at equal values due to equal amounts of labour-time). At the time, he did not have to. Almost every political economist of note he read already had some version of a labour theory of value. He built on them, with significant modifications. At the time, unlike our automated present, the ratio of human labour to tools and machines was heavy on the labour side. It seemed intuitively obvious that labour was what created wealth. And theories of the centrality of human labour in producing value were used by the bourgeoisie to attack their enemies, the landlord-aristocracy, as unnecessary parasites.

Eventually, the capitalists became established as the ruling class and the labour theory of value had been used (by Marx and others) to attack *them* as unnecessary parasites. (And the ratio of machinery to labour expanded hugely). So professional (bourgeois) economists abandoned the labour theory of value, first for “marginal utility”. Then they mostly gave up having any sort of value theory. They stuck to the surface level of prices and ignored the issue of underlying value. Practicing business-people had never been interested in value theories anyway.

Most Marxist economists did not apply Marx and Engels’ concept of state capitalism to the Soviet Union or Maoist China. Most were political supporters of these regimes! Even those few who were not, did not expect them to transform into traditional capitalism. Even now few have much of an explanation for how this happened.

To be fair, understanding social structures (which is to say, people acting, thinking, and feeling together) is difficult. Marx was trying to be as scientific as the hard, natural sciences, but this is probably impossible. For over 30 years a few of us have been predicting the final collapse of the post-war prosperity, based on our understanding of Marxist political economy. Instead, the world economy has continued to gradually slide downhill, with ups and downs. I believe, with others, that 2008 was the beginning of a new period of crisis-ridden decline. We will see. (See references.)

Predicting this, I have often felt like a geologist in California saying, “Don’t continue to build houses; at some point there will be an enormous earthquake which will flatten cities.” People ask this geologist, “When will this great earthquake occur?” The geologist does not know. “Maybe this year. Maybe in a decade or two. Possibly in a century.” (This is all true.) “Forget about it! We will take our chances building our houses.” Political economics is much more complex than geology. Unlike geological strata, classes and social groups have consciousness and make choices (people have “free will”). So it is hard to make predictions and harder to persuade people when we do.

## ★ Kropotkin’s Criticisms

Despite bitter personal and political rivalry, Bakunin thought very highly of Marx’s economic theory. In the same period, the anarchist Carlo Cafiero published his own summary of *Capital*. Over the years, many other anarchists had the same positive opinion. Not Kropotkin, the most influential anarchist after Bakunin. He always held a negative opinion of Marx and Marx’s theories. He specifically rejected Marx’s views on economics.

Perhaps the best exposition of Kropotkin’s opinions on political economy are in his pamphlet, “Modern Science and Anarchism” (in my view, not one of his better works). In it he explained his general worldview: “Anarchism is a world-concept based upon a mechanical explanation of all phenomena, embracing the whole of nature - that is, including... economic, political, and moral problems. Its method of investigation is that of the exact natural sciences....” (2002; p. 150)

Kropotkin rejected dialectics as unscientific mysticism. Otherwise he, in fact, had a similar approach to Marx’s, aiming to create an all-encompassing view of the universe, from the atoms to social movements, all in one theoretical system. The anarchist Errico Malatesta quoted the above statement by Kropotkin and responded, “This is philosophy, more or less acceptable, but it is certainly neither science nor anarchism... This is [a] purely mechanical concept... In such a concept, what meaning can the words, ‘will, freedom, responsibility’ have?... One can no more transform

## Chapter 10:

# An Anarchist Critique of Marx's Political Economy

Marx's economic theory is distinctive in several ways. He started from the issue of how labour is used and organised to produce and distribute goods and services. In order to consume things, people have to work to produce and distribute them, and organise their labour to do so. This focus on labour makes it possible to see how modern workers are exploited, even as were the serfs and slaves of old. Some work and others live off that work (even if they spend some effort in organising those who work and in making sure that they do not rebel). Alternate theories do not make this clear, or, rather, obfuscate this reality.

Marx sees capitalism as a dynamic *historical* system, driven by internal conflicts. It had an origin, it reached its height, now it declines, and it will end. In this it is no different from previous socio-economic systems. (If humanity makes it to libertarian communism, it too will evolve, although how is beyond our ability to predict.) Bourgeois economists write as if the categories of capitalism have applied for all time, or at least as if they expect the "free market" to go on forever, the perfect economic system, the "end of history."

Broadly speaking, Marx's analysis has held up well. Unlike the classical political economists, he predicted the continuation of the business cycle, with its conclusions in crises. Similarly, he predicted the growth of ever-larger capitalist enterprises, into semi-monopolies. He expected capitalism to have class conflicts, wars, ecological decay, and an ever-expanding world market.

Marx's critique of political economy is a set of useful theoretical tools for understanding the present conditions of the capitalist economy and its likely future developments. But the tools are no better than their user. It has been said that Marxist economists have predicted 20 of the last 5 recessions. More to the point, few Marxists predicted that World War II would be followed by an extended period of prosperity. Neither did many liberal or conservative economists, but Marxism was supposed to be superior. Once the post-war prosperity had settled in, most Marxist theorists of note declared that the epoch of capitalist decay was no longer in effect. They said that the prosperity would last indefinitely (the same was said by almost all bourgeois economists).

### ★ From Value to Price

Value, then, is the foundation of monetary price. (I am using "value" and "exchange value" interchangeably, although they could be distinguished, with value as pure labour-time, and exchange value as value which also has a use-value). In determining the value of a commodity, what matters to the market is not how much labour actually went into a specific object, but how much *socially necessary labour* went to make it. Labour is mostly measured in time, the time it takes to make something. A factory with obsolete machinery will take more labour time to make a commodity than will a plant with up-to-date machinery. The commodities made the old-fashioned way, with more labour, will not have higher prices (representing more labour) than those made in the modern way, with less labour. Customers will only buy commodities at the cheaper price, and therefore the goods made the old way will have to sell at the new price too. Most of the commodities will sell according to the average socially necessary labour incorporated into the average product on the market. The extra labour used up by using the old methods of production will be wasted. Further, if more of the commodity is produced than there is a market for, the labour spent in making the extra goods is also wasted and does not count.

It is an observable fact that commodities made with new methods, using less labour, tend to be cheaper than before. This is sometimes hidden by other factors, such as the (temporary) monopoly held by the more advanced producers (which lets them jack up their prices), but which is eventually countered as other producers get the new machinery. Also general inflation raises all prices. Objects made by more efficient, new, methods may increase in price slower than the rate of overall inflation.

The labour that goes into a product has a dual aspect. One is the "concrete labour" that makes the specific object, with its specific uses. The other is better seen as "abstract labour," a fraction of the total labour used in the whole society, which is translated into exchange value (expressed in money). There is a tendency for all labour to be turned into abstract labour by modern capitalist industry, as it deskills individual jobs. More importantly, the trend of capitalism is for every commodity to be made, not by one craftsman at a bench, but by the labour of a large number of people, in a sense by the whole society. It is impossible to really say exactly how much each individual worker adds to a product which has gone through a whole factory, beginning with the raw materials which had been worked up by masses of other workers (a point made by Kropotkin). Each commodity really represents a fraction of the total labour of the collective workers of society. What really matters to the capitalists is their firm's total wage bill and the total amount of time it takes to make their products.

When industrial capitalists invest in what is necessary to produce commodities, for example, baseballs, what they buy can be lumped into two categories. First is the raw materials which will be worked up into the final product and the tools and machines which will be used. Then there is the labour power of the workers who are hired to make the product.

The first category (materials and machinery) already has some value, since it was previously made by labour. When used in production, it passes its value onto the new commodities. The value of the leather or other covering is entirely passed along to the ball. 5 hours (or \$10) of leather becomes part of the value of the ball. This is also true of the gasoline which is used up in running the machines; it too passes on its total value to the balls. Machines and tools do not pass on their total value, since they are not used up in making each baseball. But they are partially used up (depreciated) each time they are used, and this value is passed on to the commodity. (The capitalists will add a cost to the price of the balls to create a fund for buying new machines when the old ones are worn out.) However, this passing along of values does not create any new values, and certainly cannot produce any profits. Therefore this part of the investment is called “constant capital,” because it does not create any new capital. The completely used-up raw material and gasoline is called “circulating constant capital.” The machines and tools, which are only used up slowly, are called “fixed constant capital.”

But the labour power of the workers is different. Once engaged, the workers’ labour changes things. As it turns leather and rubber into baseballs, it adds value to the product, value which did not exist before. It lays the basis for profitable production. Therefore it is called “variable capital.” Constant plus variable capital together is called the “cost of production.”

## ★ The Most Peculiar Commodity

Before going further in understanding the relation of value and price, I have to discuss the unusual commodity which is at the heart of capitalist production. This is the commodity of “labour power,” which is the ability of the worker to work. “Labour” as such is not a commodity, because it is a process. The workers face the capitalists who buy their commodities, their capacity to work, to use their hands and muscles, their brains and nerves, in the service of capital. Labour power is an unusual commodity in several ways. It is attached, so to speak, to human beings with minds and consciousness, which they must subordinate to the production process. It alone expends human labour, which is the only way of creating new value.

How is it determined what the value of this unusual commodity is? Following the law of value, its worth (expressed in wages or salaries) is determined by the amount of socially necessary labour which goes into producing it. The classical political economists expected capitalism to drive down workers’ wages to a biological minimum: how much is necessary to keep workers alive and to breed a new generation of workers? This is a rock-bottom, minimal, standard.

Marx added that there are also cultural, “moral”, factors which capitalists must take into consideration. On the one hand, modern industry requires a level of education and culture which was unnecessary when capitalism began. On the other, working people in each society are used to a certain level of food, clothing, shelter,

hand, in *The Civil War in France*, Marx, for once, described a non-state vision of self-governing industries (he was making a point, not advocating a program). He remarks that there are bourgeois ideologists who declare that communism is “impossible,” but who also advocate producer (worker-managed) co-operatives. Sounding like an anarchist-syndicalist, Marx responded:

*“The [Paris] Commune... aimed at... transforming the means of production... into mere instruments of free and associated labour. But this is communism, ‘impossible’ communism!... If co-operative production is... to supersede the capitalist system; if united co-operative societies are to regulate national production upon a common plan, thus taking it under their own control... what else, gentlemen, would it be but communism, ‘possible’ communism?”* (1971; pp.75-76)

What else indeed?

This would be due to increasing participation of the working people and the increase in unalienated labour.

The ex-state would evolve into a non-coercive public institution for co-ordination and planning.

Presumably it would still be centralised. The problem with centralisation is that it is more than unification or co-ordination. It means that there is a centre and a periphery. Even if the centre's officials are popularly elected, the centre is managed by a few people who get information from the many at the periphery, who in turn carry out the directions given them from the centre.

This vision may be contrasted with that of Kropotkin. His anarchist vision is of a pluralistic and decentralised federalism. Peter Kropotkin also did not draw up a detailed program, but he discussed in several books how free working people might reorganise a city and its region after a revolution (e.g. *Fields, Factories, and Workshops* and *The Conquest of Bread*). He wrote:

*“Voluntary associations... would... substitute themselves for the state in all its functions. They would represent an interwoven network, composed of an infinite variety of groups and federations of all sizes and degrees, local, regional, national, and international - temporary or more or less permanent - for all possible purposes: production, consumption, and exchange, communications, sanitary arrangements, education, mutual protection, defence of the territory, and so on... for the satisfaction of an ever-increasing number of scientific, artistic, literary and sociable needs...”*

*“True progress lies in the direction of decentralisation, both territorial and functional, in the development of ... free federation from the simple to the compound....”* (2002; pp. 284, 286)

Kropotkin did not believe in a workers' state, an institution which somehow represented the working class but which - as a state - was separated from it and above it. As in the above quotation, he proposed that there be federated associations for “mutual protection [and] defence of the territory;” he believed that such tasks would still be necessary for a period, but that they did not require a state.

Kropotkin rejected the concept of two phases of communism. He thought that a revolution should be immediately followed by full communism, but that able-bodied adults would be expected to work a half-day, perhaps 5 hours, to earn a guaranteed minimum of food, clothing, and shelter. They would be free to do voluntary work for luxuries. Bakunin, who came before Kropotkin, had believed in two phases, according to his friend, James Guillaume. The higher phase would be full communism, “From each according to their ability to each according to their need,” based on a high level of productivity. “In the meantime, each community will decide for itself during the transition period the method they deem best for the distribution of the products of associated labour.” (in *Bakunin*, 1980; p. 362)

Anarchist and Marxist visions are not absolute alternatives. Kropotkin's federated associations could democratically work out an overall economic plan. On the other

medical care, culture, and entertainment. This is based on their country's history, which includes past struggles to prevent themselves from being driven down to a biological minimum.

Some workers are much more skilled than others, usually workers who have had years of training. This includes skilled blue collar workers but also many white collar “professionals” who, like other workers, labour collectively for bosses who give them orders. Marx says that the economy treats the value of their labour power as worth several times that of the general value of unskilled labour power, due to their years of training. Their labour is worth a multiple of unskilled workers' labour. In any case, the labour market smoothes out all the differences in wages and salaries, turning them into monetary prices, part of the overall labour costs of capitalist society.

The capitalists may regard the workers' standard of living as “too high” (that is, too costly in wages and in taxes for public services). The capitalists would like to lower the working class' standard of living, to redefine the value of the commodity labour power. But the bosses must be careful, not to provoke resistance from the workers if they are attacked too directly. But when the economy hits a crisis, the capitalist class may feel that it is necessary to attack the standard of living of the working class, that is, to lower the value of the commodity labour power - if they can.

This attack on the value of the workers' labour power has been going on in the US and other industrialised countries for several decades now. If it cannot be done through peaceful, “democratic”, means, the capitalists may turn to fascism in order to attack the workers' standard of living.

## ★ Freedom and Equality under Capitalism

Unlike previous toilers, modern workers are “free” in two ways. First, they are not owned by a master or lord; they are not slaves. They are also “free” in that they do not own land like farmers (nor are they owned with the land like serfs), nor do they own shops and tools, like artisans in pre-industrial times. They are “free” to refuse to work, but in that case they and their families will either starve, or, at least, be driven to the wretched bottom of society. To live they must sell their labour power to the owners of machinery, buildings, and tools. Then they are integrated into a collective labour process which points the way to new forms of struggle and a possible new form of society.

On the surface, in the market, the free workers meet the capitalists as apparent equals. The capitalists sell their commodities of clothing or whatever to the workers, who buy it with money. Similarly, the workers sell their commodity, of labour power, to the capitalists, who pay them money. Therefore profits are not gained through “theft” but by an apparent exchange of equalities. All are equal, as we would expect from bourgeois democracy where each citizen is supposed to be equal to all others, with one vote in elections, regardless of race, religion, country of origin, or gender. This equality is only formal, however. As Anatole France put it, in 1894, “The law, in

its majestic equality, forbids the rich as well as the poor to sleep under bridges, to beg in the streets, and to steal bread.”

But once the workers enter the workplace, even the formal equality is gone. Now the capitalists (or their managers) are in charge, giving orders, and the workers are subordinate, following orders. Whether or not workers can vote in government elections every few years, inside the workplace - for most of their waking lives - they live under despotism. Except for the few with unions, they have no rights. They can be fired at any time for almost any reason. (Every year thousands are fired for union organising; this is illegal but difficult to prove.) Here too, Marx’s critique of political economy looks behind the surface of equality to the reality of capitalist despotism.

## ★ Surplus Value to Profit

Before continuing the relation of price to underlying value, it is necessary to discuss the nature of profit. Where does profit come from?

One common view is that it comes from the process of selling. Each capitalist tries to buy needed materials cheap and to sell finished commodities dear - at as high a rate as the market will bear. So profits seem to come from selling commodities above their values. While this may happen for individual firms, it is not an explanation for the whole capitalist class. For each capitalist who sells a product at a price above value, there is someone (a consumer or another capitalist) who is losing money by paying extra for it. This includes the same capitalist who buys needed materials to make that final product. *Everyone* cannot sell commodities at a higher-than-justified level. The ratios between commodities would stay the same. The result would be inflation of prices, but not the creation of profit. Profit must come from the field of production, not circulation.

Another approach is made by both bourgeois economists and non-Marxist radical economists. Their answer seems obvious: profits come by the expansion of production. Combining land, labour, and capital results in producing more commodities than previously existed. That “more” is the profit.

Suppose the workers in a factory produce (arbitrarily) 100 baseballs in five hours, but then new machinery lets them produce 200 baseballs in five hours. Does this create a profit of 100 extra baseballs (a 100% rate of profit)? It does create more use-values in terms of more baseballs. But the capitalist owners are not interested in creating more useful things for people. They want more exchange value (in the form of money). If twice the number of baseballs are now produced in the same time, each baseball will be cheaper than before, perhaps 50% cheaper. Ignoring the costs of the raw material, whereas 100 baseballs used to be worth 5 hours of labour, now 200 baseballs are worth 5 hours of labour. There is more utility but not more exchange value, and therefore no profit.

For Marx, profit, like monetary prices, is based on labour time. The workers toil for an agreed-upon amount of time, let us say 8 hours a day. At a certain point in time, they will have produced commodities with enough value to pay for their wages,

that much of technology was developed for no reason but to increase the exploitation of the workers. Engels wrote:

*“Society cannot free itself unless every individual is freed. The old mode of production must therefore be revolutionised from top to bottom, and in particular the former division of labour must disappear. Its place must be taken by an organisation of production in which... productive labour, instead of being a means of subjugating men [note], will become a means of their emancipation, by offering each individual the opportunity to develop all his [note] faculties, physical and mental, in all directions and exercise them to the full - in which, therefore, productive labour will become a pleasure instead of being a burden.”* (Anti-Duhring, 1954; p. 408)

So Marx had described the “more advanced phase of communist society, when the enslaving subjugation of individuals to the division of labour and thereby the antithesis of intellectual and physical labour...” is over. (CGP; p. 347)

The most alienating division of labour, then, was between intellectual and physical labour, between decision-making and decision-carrying-out, between order-giving and order-taking. The “utopians” had developed the idea of integrating labour, and the anarchists were to develop it further, but it was important to Marx and Engels.

This concept of technical integration included the synthesis of agriculture and industry, of town and farm. This was social but also necessary for ecological health. Engels wrote, “The present poisoning of the air, water and land can be put an end to only by the fusion of town and country...” (Anti-Duhring, p. 411)

The 10 point program of the *Communist Manifesto* included, “9. Combination of agriculture with manufacturing industries: gradual abolition of the distinction between town and country, by a more equable distribution of population over the country...” (p. 155)

Engels referred to the “utopians” ideas of collective townships which integrated agriculture and industry. It only becomes realizable, he believed, with a centralised plan. “Only a society which makes it possible for its productive forces to dovetail harmoniously into each other on the basis of one single vast plan can allow industry to be distributed over the whole country...” (Anti-Duhring, p. 411)

## ★ Comparisons of Marx’s Communism and Anarchist Communism

Marx and Engels deliberately did not give details about what a socialist/communist society would look like. We get some ideas from what they wrote. They were committed to a democratic society, self-managed by the freely associated producers. They saw it as being a centrally-planned economy, with industry and agriculture integrated and owned by the democratic workers’ state. This had replaced the bourgeois state. The workers’ state would begin to die out as soon as it was established.

than “the rule of the working class.” They pointed to the ultra-democratic Paris Commune as an example of the dictatorship of the proletariat. Some libertarian Marxists have used it to mean the stateless rule of the self-organised working class. Lenin, in his *State and Revolution*, claimed that Marx and Engels had meant a “semi-state” which, from the moment of its creation, would “immediately” begin to wither away as popular participation increased (this was before he set up his own one-party dictatorship). Today, we can no longer use the phrase given what it has come to mean.

It is unclear to me whether, for Marx, the “period of revolutionary transformation... in the political sphere” takes place before the lower phase of communism or if it includes the lower phase. Presumably the working class must first seize power before it can begin to create even the lower phase! (For anarchists, “seizing power” is not necessarily the same as “seizing state power”, that is, creating a new bureaucratic-military state machine.) This has become an issue relevant to the poorer, oppressed, nations of the world. As in Marx’s day, most of the countries of the world are too poor to get to even the lower phase of communism on their own. But, unlike Marx’s day, the world as a whole is ready, and over-ready, to establish a prosperous international communism.

What then are the options for an oppressed nation in Africa, Asia, or Latin America? What is possible is for the workers, peasants, and other oppressed sections of the countries, to seize power and set up their own federation of workers’ and peasants’ councils (I leave out for now the question of whether this is a state). The federation can take steps toward communism, but these will be limited internally. Markets and the law of value could not be immediately abolished. But the federation can do all it could to spread the revolution to other oppressed nations and to the imperialist nations. These last nations have the wealth to help the poor countries develop in their own way, toward liberatory communism. This is the strategy of the Permanent Revolution, applied internationally.

Permanent Revolution is not a two-stage strategy (as advocated by Maoists or Mensheviks): first the capitalist revolution, then the proletarian revolution. It says that the workers and their allies should take power and carry out, at the same time, tasks of both the bourgeois-democratic revolution and the proletarian socialist revolution. The first includes land to the peasants who use it, freedom of speech, election of officials, national self-determination, etc., and the second includes also public ownership of the land and industry, worker management and planning of industry, international revolution, etc.

## ★ A Technological Revolution

Many interpret Marxism to mean that modern technology and social organisation, just as it is arranged under semi-monopolised capitalism, will continue under socialism - except that, on top, instead of corporate boards of directors and the bourgeois state, there will be a centralised workers’ state. But Marx and Engels were aware

that is, the equivalent of their commodity of labour power. After, say, two hours, they have produced enough baseballs (or whatever) which, when sold, would pay for their families’ food, clothing, shelter, education, and cultural needs. (That is, the value of the product they have now produced is equal to the value of their commodity labour power.) But they do not stop working after two hours. They continue to work, with a break for meals, for 8 hours. Those final hours are unpaid. This work is done for free, just as much as slaves or serfs did free work for their lords. The extra labour produces extra value, described as “surplus value” (in Marx’s German, “Mehrwert”).

It is from this surplus value that the capitalists divide out the profits of industrial enterprises, the profits of retail merchants, the interest on bank loans, ground rent to landowners, the costs of advertising, the taxes paid to the government, etc. From this surplus value comes the income of the capitalist class, to be used for buying luxuries and mostly for reinvesting in industry - to expand constant and variable capital for the next cycle of production.

There are two basic ways in which the capitalists can increase the amount of surplus value they pump out of the workers. One way, called “absolute surplus value,” is to increase the length of the working day. Since necessary labour (what is necessary to pay for the value of the commodity labour power) stays the same, the amount of surplus value will increase. This was the method used mostly in the beginning of industrial capitalism. Workers, including child labourers, worked 12 or 14 or more hours a day. One problem with this is that it tended to physically weaken the working class, in effect paying them less than the biological minimum. However, this method is still used, through compulsory overtime in many industries.

The other method produced “relative surplus value”. Without lowering the amount the workers are paid, the amount of time they spend producing this wage-equivalent is decreased. This may be done by speed-up of the assembly line, by time-and-motion studies (Taylorism), by increased productivity through better machinery, or in other ways. There are limits to both methods. The basic one is that the day is limited; even Superman could not work more than 24 hours in a day! Lesser mortals would reach their biological limits, from lengthened days or from speed-up, well before that.

Therefore the value of an individual commodity is the cost of constant capital (previously created by labour, now passed onto the finished product) + variable capital (new value created by labour and paid for) + surplus value (new value created by labour but not paid for). This is true for the individual commodity and for the mass of commodities (one baseball or thousands of baseballs).

## ★ From Value to Price of Production

However, this conception creates a problem. The ratio of exploitation is that of surplus value to variable capital. Capitalists care about this; they want to get as much labour out of the workers as possible. But what they are most concerned with

is the ratio of surplus value to their total investment, which is constant capital + variable capital. They do not care, nor are they even aware of the fact, that only living labour (variable capital) can create surplus value.

Imagine two factories with the same number of workers working the same hours at the same rate of pay (that is, they have the same rate of exploitation, of surplus value to variable capital). The two factories will produce the same amount of surplus value. Will the capitalist owners get the same profits? Not necessarily. The two factories produce two different commodities, requiring different machinery and raw materials. Therefore each has a different amount of constant capital (dead labour). One has a lot, one has a little. Here “profit” is defined as the surplus value as a proportion of the total investment (cost of production, meaning constant + variable capital). The capitalist with the large amount of constant capital will have a lower total profit than the one with the lesser amount of constant capital, even though the rate of exploitation (surplus value to variable capital) is the same.

However, this is not true. Industrial capitalists do not get smaller profits because they use more efficient, productive, machinery. If they did, it would not pay capitalists to innovate by investing in better, more productive, machinery. The economy would stagnate.

Marx solves this dilemma this way: industrial production which gets high rates of profit (because of extra surplus value produced or any other reason) attracts other capitalists. These new capitalists invest in the profitable industry and expand production of its commodities. This competition drives down prices and therefore drives down profits. Eventually the profits are no longer especially high; they are about the level of the average rate of profit. The same thing, in reverse, happens in industries which have especially low rates of profit (due to needing large amounts of constant capital or for any other reason). Capitalists will withdraw from that industry, or they will just produce less. With fewer commodities being available to the market, the price will go up and so will the rate of profit per item. Eventually its profit rate will also be approximately at the average rate of profit.

The way it works out, it is as though all the surplus value produced is pooled together and each capitalist producer gets to share in it, not according to their number of workers but according to their amount of invested capital (variable + constant capital). Marx calls this “capitalist communism.” There is an average rate of profit, which is the ratio of the total surplus value of a society to the total invested capital of society.

The total value of a commodity is reconceptualised as the “price of production.” This includes variable capital + constant capital + *an average profit*. Actual prices fluctuate due to the multiple pressures of supply and demand in the market, but they fluctuate around the price of production. Capitalists will not sell commodities for less than they cost to make (constant + variable capital) nor below the average rate of profit (at least not for long!). And selling them above the average rate of profit only attracts others to compete by under-selling through lower prices.

One other factor may influence prices. This is monopoly. If one firm dominates an industry, for whatever reason, or if a few firms do, they can set prices and not worry

not be money; they could not be accumulated or exchanged for goods on a market. Instead, they are brought to the common storehouse to exchange for goods which took an equivalent amount of labour to produce. (10 hours of work earned the right to a shirt which took an average of 10 hours to make.) Only consumer goods can be withdrawn, not means of production.

To Marx, this was better than capitalism but still limited. It was only the first phase of communism. Receiving in goods the equivalent of the amount of labour a worker did is still “in principle a bourgeois right,” although one which capitalism never lived up to. Workers have different amounts of strength and ability - some can work longer hours or harder than others. Workers have different needs and wants, regardless of how hard they work. Therefore this equality remains unequal and unfair. Society is not yet completely unalienated.

*“In a more advanced phase of communist society,... when labour is no longer just a means of keeping alive but has itself become a vital need; when the all-round development of individuals has also increased their productive powers and all the springs of co-operative wealth flow more abundantly - only then can society wholly cross the narrow horizon of bourgeois right and inscribe on its banner: From each according to his abilities, to each according to his needs!” (same; p. 347)*

In the *Critique of the Gotha Program*, Marx made further political predictions. He asked, “In a communist society... what social functions will remain that are analogous to the present functions of the state?” (same; p. 355) He did not answer his question; he implied that there may still be a need for social co-ordination and other tasks in a stateless society. Then he wrote,

*“Between capitalist and communist society lies a period of revolutionary transformation from one to the other. There is a corresponding period of transition in the political sphere and in this period the state can only take the form of a revolutionary dictatorship of the proletariat.” (same)*

What exactly Marx and Engels meant by the “revolutionary dictatorship of the proletariat” is a matter of controversy. With the development of Marxism-Leninism it has come to mean the dictatorship of one person, or a small group, or, at most, one political party. Marx’s ideas of a transition between capitalism and communism, and of a lower phase of communism, etc., have been used as excuses for Stalinist totalitarianism. They have been used as rationalisations to justify regimes which were not, in fact, moving toward stateless, classless, associations of free individuals, but were moving away from that.

None of these meanings would have been acceptable to Marx or Engels’ democratic principles. In their day, “dictatorship” was sometimes used to mean the domination by a parliament or by a popular class. As best as can be determined, what they meant by “dictatorship of the proletariat,” was neither more nor less

“political character.” Engels was quoting from Marx’s writing on the Paris Commune. Engels felt this point was so important that he repeated it in his 1888 introduction to the *Manifesto* - while making no other changes to the original.

In Marx and Engels’ writings, they portray the 1871 Paris Commune uprising as extremely democratic. In particular, the city council members were directly elected by the sections of the city and were subject to recall if their sections no longer agreed with them. The representatives were not paid more than average workers. All officials, such as judges and local police, were similarly elected and controllable. The regular army was replaced by an armed people (a volunteer militia). Marx expected that if the Commune had lasted it would have federated with similar city, town, and village communes throughout France.

This was an image of a very democratic representative democracy. But there was nothing in it of direct democracy, of the members of sections meeting and deciding how they would manage their neighbourhood. Or of workers meeting face-to-face in the factory or shop or office each morning to decide what they would do that day. In general, anarchists are not against some degree of representation or delegation, in large, complex, societies. But anarchists seek to root this in a vibrant, lively, decentralised, direct democracy, where communities directly control their lives. Even at their most libertarian-democratic, Marx and Engels showed no understanding of this.

## ★ Critique of the Gotha Program

In *The Critique of the Gotha Program*, Marx described communism as a “co-operative society based on common ownership of the means of production” (1974; p. 345). He raised the notion of two “phases” of communism. In the first phase, “we are dealing here with a communist society... as it emerges from capitalist society... still stamped with the birthmarks of the old society from whose womb it has emerged.” (CGP, 1992; p. 346)

For some reason, Lenin renamed Marx’s “first phase of communist society” as “socialism” and only Marx’s “more advanced phase of communist society” as “communism” proper. To Marx, they were both phases of communism. (They have no relation to the differences between Socialist and Communist parties.)

Of all the possible differences between the lower and higher phase of communism, Marx focused on the issue of remuneration of the workers (a highly contentious issue). In the first phase, the individual workers get back the equivalent of the amount of work they have contributed (minus deductions for an overall fund for maintenance and accumulation of production capacity, and for taking care of children, the sick, and older people). The able-bodied workers will be - Marx predicted - paid in certificates which register how many hours they worked or how hard (“duration or intensity” of labour); they were not to be rewarded according to how much they produced. Marx did not propose that more skilled or highly trained workers should be paid at a higher rate, or address this issue at all. The certificates would

about competitors selling at lower prices (in bourgeois economic terms, they are “price makers” rather than “price takers”). They can sell above the average rate of profit, taking an extra large share of the total capitalist class’ surplus value. There are limits to this also. I will discuss monopoly further in a later chapter.

This, then, is a simplified version of Marx’s concept of how values get to be expressed as prices and how surplus value gets to be expressed as profits. Anti-Marxist economists focus on this topic as a central problem. They call this the “transformation problem,” although Marx does not actually see labour-time values as being “transformed” into monetary prices. Rather he presents price and labour-time as two ways of expressing value. The “price of production” is a reconfiguration of commodities’ labour-time values, not the abolition of their values.

As this is an introductory text, I am not going to review the attacks on Marx’s value theory and the Marxist responses (see references). Marx was not really interested in specific prices. He was not a “micro-economist.” He held that the total of all society’s values, measured by socially-necessary labour time, was equal to the total of society’s prices (a concept similar to the “Gross Domestic Product”). As mentioned, he held that the total of the surplus value was equal to the total of all profits, and that this could be used to find the average rate of profit. These were his key concepts.

For Marx, *the essential, defining, concept* of capitalism is not competition, private property, nor stocks-and-bonds. *It is the capital/labour relationship*. On the one hand is capital, self-expanding value, driven (by class conflict and by competition) to expand, and grow, to accumulate ever more value. (If a company does not continually expand, it will eventually be beaten by its competitors and go broke.) Capital is represented by its agents, the bourgeoisie and their managers. On the other is the proletariat, those who have nothing but their ability to labour, by muscle and brain. They sell their labour-power to the agents of capital, who proceed to pump surplus value out of them by working them as hard as possible while paying them as little as possible (at or below the value of their labour power). This is a relationship; without capitalists there are no proletarians; without such modern workers, there are no capitalists.

## ★ Money

Of course value, when expressed as price, requires the existence of money. Money is both a measure of value and a store of value. Originally, humans used only valuable things for money: cattle, or belts of shells. After a long history, they settled on gold and silver. These are rare metals which are found and dug up by labour. They had original use-values in that they were used for decorations. They last indefinitely, without rusting. They are easily divided into small units and easily merged back into larger ones. Small units may represent a lot of value. Since gold and silver may be adulterated with other metals, governments produced official coins, guaranteed in weight and degree of purity (then the governments would start cheating on the value of their coins, causing inflation).

In pre-capitalist societies, money was peripheral. Most objects were made for family use or were traded with neighbours. Only a few commodities were sold on a market. But under capitalism, in order to live we rely on acquiring commodities for everything, from everyone, throughout the world. Now money is an essential intermediary, the “universal equivalent,” which holds all of society together in a “cash nexus.”

As capitalism developed, it became inconvenient for merchants to lug around large quantities of metal. There developed banks, which held the gold. They provided banknotes which could be circulated and then turned in for hard money when desired. These notes were “as good as gold.” Today - skipping a long history - the state issues fiat money, that is, unbacked paper money. It is supported by nothing but the confidence people have in the health of the economy. Unlike gold (or cattle), it has only a “fictitious value,” but no intrinsic value.

When money embodied real value (gold coins or gold-backed bankers’ notes), sometimes more money became available than was necessary for the needs of the market, for circulation of money and goods. Then the value of the money would fall to its minimal labour-time value, while the “surplus money” would tend to drop out of circulation into private or collective hoards. But now, all other things being equal, the more fiat money is available in relation to the same number (value) of commodities, the less “value” each unit (dollar, etc.) has.

specialised to either be workers or bosses, would also dissolve into a classless society.

Alienation and fetishism (as discussed in chapter 2) would die out. Labour would be unalienated because it would not be done for someone else. It would be done for the community of which each person was a free member. The social nature of all interactions would be transparent rather than fetishised, open to all to perceive. The very nature of work would change, ending the class-determined divisions of labour, as would the relations between town and countryside.

## ★ Program of the *Communist Manifesto*

Section II of the 1848 *Communist Manifesto* is titled, “Proletarians and Communists.” At its end, Marx lays out a brief program. It is not a description of full communism, but a series of steps toward communism, a transitional program. First, he writes, the working class must take power. Then, “the proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the state, i.e., of the proletariat organised as the ruling class... by means of despotic inroads on the rights of property...” (in Draper, 1998; p. 155)

A 10 point program follows, including, “... 5. Centralisation of credit in the hands of the state... 6. Centralisation of the means of communication and transport in the hands of the state. 7. Extension of factories and instruments of production owned by the state... 8. Equal liability of all to labour. Establishment of industrial armies, especially for agriculture...” (same)

This leads to the end of distinct, specialised, classes, Marx claimed. It leads to the end of the state, that is, the end of a coercive instrument of one class over other classes. “When, in the course of development... all production has been concentrated in the hands of associated individuals, the public power loses its political character... In place of the old bourgeois society with its classes and class antagonisms there comes an association in which the free development of each is the precondition for the free development of all.” (same; p. 157)

Anarchists would distrust the chances of such free individual development, if the “public power” has all industry and agriculture centralised into its control and everyone is forced to (“has liability to”) work in industrial armies.

In any case, by 1872 Engels himself felt that “this program has in some details become antiquated.” He did not discuss specific points but instead wrote, “One thing especially was proved by the [Paris] Commune, viz., that ‘the working class cannot simply lay hold of the ready made state machinery and wield it for its own purposes’.” (in Draper, 1998; p.262)

Engels’ point was that it was not enough to radically democratise the bourgeois state. Instead, it was necessary to completely get rid of the capitalist state and replace it with an institution like the Paris Commune, “the proletariat organised as the ruling class.” Then it would be this workers’ state which would evolve out of its

## Chapter 9:

# What Marx Meant by Socialism/Communism

The earlier, “utopian,” socialists, such as Charles Fourier, Robert Owen, and Etienne Cabet, created very detailed instructions on how a new society should be organised. Marx deliberately rejected that approach. His descriptions of how a socialist (communist) economy would work are few and far between. (Marx used both “socialism” and “communism” for his goal, although he preferred the term “communism”; most revolutionary anarchists also called themselves both “socialists” and “communists,” while preferring the latter - this was before the term became associated with the dictatorships of the Communist Parties). It has been said that he was an economist of capitalism, but not an economist of socialism. Even what he did write on the subject tended to be limited.

In *Capital*, vol. I, he refers to “a community of free individuals, carrying on their work with the means of production in common, in which the labour-power of the different individuals is consciously applied as the combined labour-power of the community... Production by freely associated men [note]... is consciously regulated by them in accordance with a settled plan.” (pp. 90, 92)

Rather than presenting a new social system, Marx focused on the need for the working class to collectively take power, to replace the bourgeoisie as the (temporarily) new ruling class. The workers and their allies would get rid of the existing state and replace it with a radically democratic state, similar to the Paris Commune. It should essentially be the self-organised working class. This new state would expropriate the capitalist class. The workers would build a new economy based on the centralisation, collectivisation, and socialisation of labour of the existing monopolised and statified capitalist economy. The means of production would be held in common (but not individual consumer goods). A common economic plan would be created (just how was never spelled out).

There would be no more law of value, because goods would not be bought and sold on the market. There will be no commodities. Human labour would be distributed among the various industries according to need, as determined by the plan. Established through revolution, the workers’ state, as a coercive social machine, would “wither away” or “die out.” It would evolve into a non-violent public institution which co-ordinates the economy. Classes as distinct layers of society,

## Chapter 3:

# Cycles, Recessions, and the Falling Rate of Profit

Classical political economists of Marx’s time and before, denied the inevitability of business cycles and their culminations in crashes. The capitalist market, they held, was so efficient a mechanism that it balanced what came into it and what came out, production and consumption, buying and selling, in a smoothly functioning process. There might be momentary, localised, disharmonies, in one industry of another, but no overall crashes. When things went wrong, it must be due to extra-economic factors: bad weather, wars, or government intervention into the market, which was always a bad idea.

Yet there have always been cycles, as long as capitalism has been in existence. There have been downturns between a third to a half of capitalist history from the early 19th century to the late ‘30s. (These downturns were called “crashes” or “panics” until a nicer term could be found: “depressions.” After the ten-year Great Depression of the 30s, they used the milder-sounding “recession.”) Today’s economists do not have much of a theoretical understanding of them. But they believe that with the use of governmental monetary manipulation, tax changes, and/or government spending, it is possible to modify the cycles, to minimise their downturns into insignificance. Too bad this has not worked out so well.

Cycles go from gradual recovery from the depth of the last downturn, to increased productivity up to a new prosperity, to the beginning of a downturn, and then to the next crash. Then it starts all over again.

Marx was far ahead of his time in recognising the reality of repeated business cycles and their resulting crises. He did not write out a full theory of the business cycle in one place, but his thoughts about it are apparent, especially in his discussion of capital accumulation. However his lack of one concentrated and complete statement has led Marxists to propose various theories of cycles and their crashes.

## ★ Marxist Theories of Cycles and Crashes

One of the most widespread misunderstandings of the capitalist cycle is held by people who do not know much Marxist economics. It is “under-consumptionism,” in its simplest form. This points out that the workers produce more than they can buy back. Therefore production is greater than the consumer market can absorb. The capitalists cannot sell all their commodities, which supposedly causes the system to collapse.

However, the workers always, at all times, produce more than they can buy back! Their products embody variable capital + constant capital + profit at the average rate (from surplus value). The workers can only buy the equivalent value of the variable value, which is equal to the sum of their wages. They can *never* buy back the constant or surplus values. If this was a problem, then capitalism would not merely have downturns, it would not work at all for a single minute. Fortunately, the constant and surplus values of the commodities do find markets, in other capitalists. They sell to each other. Capitalists, who produce more than they had before (surplus value), can sell this extra to other capitalists. These have also wrung surplus value from their workers and therefore have more value than they had before, with which they can buy new commodities.

Capitalists who make machines and materials for production (whom Marx bundles into “Department I”) sell their products to other capitalists to use in their workplaces (or rather to employ more workers to use the machinery). The consumer goods capitalists (in “Department II”) use their constant capital value equivalent to buy machines, etc., to replace old machines, and use surplus value equivalents to buy new machines, etc., in order to expand. The workers in both departments spend their wages on consumer goods (from Department II). The capitalists can expand, using their surplus value to hire more workers (who can now buy more consumer goods). The capitalists and their families also buy luxury consumer goods, a small fraction of Department II products.

Of course, this expansion of production and sales will require an expansion of money. In the early days of capitalism, the owners of gold mines would keep on producing more gold (that is, hiring more workers to dig more gold). These days, the government works with the banks to put out more paper money or credit.

A more sophisticated model of the cycle is called “over-production” (or “over-accumulation”): In their drive to expand, competing capitalists put more money into constant capital than into variable capital. They are constantly seeking to expand labour productivity, which means more machines and materials, and fewer workers in proportion. (That is, the number of workers may increase, but not as fast as the amount of machinery.) Also, the capitalists are driven to increase surplus value, which requires holding down the workers’ pay. Even in times of prosperity, when the capitalists are (relatively) most willing to let the workers increase their pay (due to shortages of labour plus high levels of profit), the bosses are still reluctant to increase wages.

this interpretation, what Marx and others were saying was that what capitalism produces “with the inexorability of a law of nature” is the end of capitalist prosperity and stability, one way or another. The good times, such as they were, do not last.

It may seem to still be deterministic and teleological to say that, not that only one, but one out of two possibilities is likely to happen. However, both “a revolutionary re-constitution of society” (communist revolution) and “common ruin” (“barbarism,” “annihilation”) could take many possible forms. The “re-constitution” could involve any of various methods of revolution and any of various forms of socialism. “Common ruin” might include any of various forms of destruction, including wars, economic degradation, and/or a range of ecological disasters.

As best as we can predict, capitalism inevitably creates the possibility of an alternate society, built by the collective working class and its socialised labour. Its situation in life pushes the working class to struggle against its oppression. This tends to create a consciousness of exploitation and a desire for a new society. The beautiful vision of socialism, the culmination of the moral values of humanity down through the ages, has become a real possibility and even a necessity.

But it is a choice. It is not inevitable, not inevitable at all; that the workers or anyone else will choose revolution before we face economic collapse, nuclear war, or environmental cataclysm. It is possible, not inevitable. The issue is not prediction but commitment. Whatever is the “correct” interpretation of Marx on the question of “inevitability,” the issue will be decided in struggle.

But productivity has greatly expanded. For example, up until quite recently, as history goes, 95% of the population was committed to raising food, so that 5% or less could live in cities and have an urban culture. Today, in the industrialised nations, the proportions are reversed. Less than 5% of the population produces more than enough food to feed the rest of the nation. Even if we turned to fully organic methods of farming, the proportion of those who have to do farm work will be much smaller than they have been for most of history. It has finally become possible to have a society which satisfies the needs and wants of all its members, under socialism.

“Production by freely associated men [note]...,” wrote Marx, “demands for society a certain material groundwork or set of conditions for existence which in their turn are the spontaneous product of a long and painful process of development.” (p. 92)

Similarly Kropotkin wrote that in the past, “... the power of production of food-stuffs and of all industrial commodities had not yet reached the perfection they have attained now... Communism was truly considered as equivalent to general poverty and misery, and well-being was... accessible to a very small number only. But this quite real and extremely important obstacle to communism exists no more. Owing to the immense productivity of human labour... a very high degree of well-being can easily be obtained in a few years by communist work.” (2002; p. 172)

This concept of Marx’s and Kropotkin’s cannot be proven or disproven (without access to an alternate universe). I hope it is true. If it is not true - if it was possible to achieve socialism any time since people began agriculture 10 thousand years ago - then humans have been failing to create socialism for 10 thousand years. This does not make our future chances look good. But if socialist freedom has only been possible for a century or two at most, due to the development at last of the necessary “material groundwork,” then this is not a long time as history goes. It suggests that we still have a chance to create a free and co-operative society - before catastrophe overtakes us.

According to the philosopher Martin Buber, Marx wrote to Engels, in 1865, “The difficult question for us is this. On the continent, the revolution is imminent and will immediately assume a socialist form. But will it not necessarily be crushed in this small corner of the earth, seeing that over a far greater area the movement of bourgeois society is still in the ascendant?” (in Buber, 1958; pp. 84-85) Next to the words, “this small corner of the earth,” Buber puts in parentheses, “[meaning the continent of Europe!]” But then Buber was a Zionist and Marx was an internationalist. Marx was expressing a realistic fear that the European socialist revolution would be held back by the lack of economic development on a world scale. And so it was. Marx did not realise that capitalism was not yet in its final epoch but only reaching the height of its development. Today industrial capitalism has entered its epoch of decline. Humanity has reached and passed the point where it is capable of industrialising the whole world.

The alternatives, then, are “a revolutionary re-constitution of society at large or the common ruin of the contending classes” (Marx), “ruin or revolution” (Engels), “socialism or barbarism” (Luxemburg), “anarchism or annihilation” (Bookchin). With

As a result, production of consumer goods (among other goods) tends to expand more and faster than do the wages of the workers. In other words, production of consumer commodities expands more and faster than does the consumer market. And if the consumer goods-producing capitalists (Department II) cannot sell their goods, they will no longer buy from the machinery-producing capitalists (Department I), who now also cannot sell their products. If goods cannot be sold, then their values cannot be “realised.” At least, until the next crisis, when the “extra” goods are either sold off (often below value) or are just destroyed, and the cycle can start again.

Another view incorporates this over-production hypothesis. It is called “disproportionality.” The capitalist system is a very complex system. To work, the different parts have to match up with each other, not only consumer goods production and the consumer market (over-production), but each commodity must match with its need. Raw materials, production of machinery, use of machinery, the right numbers of everything, the right amount of money for the different capitalists to buy the right product at each stage of production, the right workers in the right numbers with the right skills at the right wages, the right distribution of commodities, the right amount of credit, and so on. Each commodity has both a use-value and a value, so each must fit into the complex process at the right time and in the right place, even though there is no overall plan, just a number of competing capitalist firms. While the bourgeois economists speak of the market as a smoothly running mechanism, in fact it lurches forward with herky-jerky motions. *Of course*, it produces ups and downs, prosperities and recessions.

While there is much truth in the over-production and disproportionality concepts of cycles, as such they leave out what needs to be at the centre of any analysis of capitalism: the production of profit. This is what drives all capitalist production, what it is all about, and it makes all the difference. If the production of profit is very high, then the capitalists will expand, hiring more workers and being (relatively) more willing to raise their salaries. This will expand the consumer market. Meanwhile, in order to expand, they will be more willing to buy materials and machines from each other. Higher profits prevent over-accumulation (and “under-consumption”). Similarly, higher profits counter disproportionalities. It greases the wheels. With more profits, things go smoother and match up better. Conversely, lower profits have the opposite effect, increasing “over-production” and disproportionality. There seems to be “too much” of some commodities only because there is “too little”, namely too little surplus value.

## ★ The Tendency of the Rate of Profit to Fall

As mentioned, each capitalist firm seeks to raise its profits by using the most modern technology, the most productive methods. This means investing in more and better machinery, in order to raise their workers’ per-person productivity. They

may hire more workers, as they expand, but they buy even more machinery, and materials to go through the machinery.

As a result, the enterprise's workers will be able to produce more goods in the same amount of time, each good cheaper than the competitors' version. The owners of the factory will be able to flood the market with their cheaper goods - although they may charge a higher mark-up (profit) than do their competitors. They will win a larger market share and - what is the point - make an extra-large profit. (By these methods, their greater investment will get a larger share of the total surplus value produced by all the capitalist firms.) Eventually the competitors will catch up with them by also installing the new type of machinery. Or the competitors will go bankrupt. Either way, the original initiators will have established a new normal as a level for productivity in the industry.

The individual factory makes a larger profit, but actually it contributes a smaller proportion of surplus value than before. *Profit is nothing but the unpaid labour of the workers.* The purpose of machinery is to displace labour, to use less labour to make more things. The factory owners may have more surplus value because they hire more workers, but they have bought even more machines, so the ratio of surplus value to the total investment goes down. And when the whole industry adopts the new technology, the whole industry will be producing a lower ratio of surplus value.

When most of an economy has adopted similar new technology, the total ratio of surplus value will have decreased. The total amount invested (included constant capital) will have increased, but the total amount of surplus value, for all society, will not have increased proportionally. The total mass of surplus value may have increased or decreased, according to the number of workers employed, but its ratio to the total invested will not have increased. Which is to say that the profit rate will decrease. (The classical political economists had noticed the falling rate of profit before Marx, but had no good explanation for it.)

The basic ratio of machinery and materials to workers is a "technical composition." (It is unclear how this can be measured. Perhaps by weight?) If measured by the value of the constant capital to the variable capital (by how much each component costs, in money or labour-time), this is the "value composition." Put both together and there is what Marx refers to (for some reason) as the "organic composition." The more machinery, the higher the organic composition - and the lower the rate of profit produced.

The whole point of increasing machinery in production is to decrease the amount of labour used. Higher productivity forces out labour. A pool of unemployed workers is created, a surplus population, which Marx calls "the reserve army of labour." Some are immediately available for work (members of the "floating" reserve army of labour). Others are busy elsewhere but can be called upon if more workers are needed (referred to as the "latent" reserve army). This includes poor peasants and also women homemakers. Women may be attracted (or forced) into the labour force when there is a shortage of (mostly low-paying) labour. But they can always be pressured back into the families when no longer "needed." At least that has been the

accused of believing that the economic collapse of capitalism was inevitable. What she believed was that if capitalism was left alone, to follow out its own dynamic laws of development, it would eventually collapse, and produce "barbarism." This was "inevitable." But she argued, if the working class chooses to intervene in history, it will be able to prevent barbarism and collapse; it will be able to save humanity through making socialist revolution.

The anarchist Murray Bookchin noted that the hierarchical structures of modern capitalism threaten human survival through nuclear war or ecological catastrophe (he wrote before global warming became so obvious). "No longer are we faced with Marx's famous choice of socialism or barbarism; we are confronted with the more drastic alternatives of anarchism or annihilation. The problems of necessity and survival have become congruent with the problems of freedom and life." (1986; p.62)

In its epoch of decay, capitalism threatens humanity with terrible destruction. That is why a revolution is necessary. If this were not so, then socialism (of some sort) might be a nice ideal, a morally-attractive goal, but it would not be necessary. There would be no need to ask workers and others to engage in great struggles, to risk everything in a revolution, if capitalist society might continue on a course of gradual improvement, with ups and downs in the economy. Indeed, it would be wrong to advocate a revolution, with all its costs, in wealth and blood, and risky uncertainties.

While threatening destruction, capitalist industrialism has also made possible a new, non-oppressive, classless society. Its technology is so immensely productive that it could provide plenty for everyone, with lots of leisure and only a minimum of labour. No doubt the technology would have to be redesigned to fit a sustainable ecology and a self-managed economy, but the potentials are there to do that.

Will the working class take up the challenge? Capitalist industrialism pushes them toward class consciousness and revolution. But some workers are (relatively) better off than the majority of the world's workers. Marx and Engels sometimes called this layer of proletarians, the "labour aristocracy." These workers may be bought off, corrupted, or just feel satisfied with the way things are. At the opposite pole, there is a mass of very poor workers, including the super-exploited (paid less than society's standard for their labour-power commodity) and the unemployed. They may be exhausted, demoralised, and overwhelmed, feeling uninterested in economic or political struggle. There can be no guarantee that either layer of the working class, or any other, will engage in struggle at any particular time and place.

Marx believed that socialism was only possible when technology had become potentially productive enough. Only this made it possible to return to the equality and freedom of early human hunter-gatherer societies ("primitive communism") but with a much higher standard of living. In the past socialism (communism) was simply not possible. There was not enough to go around. After previous revolutions, most people had to go back to the daily grind in order to keep everyone fed, while a few were able to spend full time being rulers, as well as artists or scientists. Various mass struggles could produce more freedom if they won, but they could not jump from a low level of productivity to socialist liberation.

“socialist” which is actually a mass-murdering totalitarianism. Most revolutionary Marxists found themselves accepting such vile regimes as “actually existing socialism.”

It can also lead in the opposite direction. Marx is interpreted as predicting that the working class will inevitably make a socialist revolution. Since it has not, then the whole theory must be mistaken and the program of socialist revolution must be rejected. Many have reasoned this way.

## ★ The Moral Choice

However, Marx and Engels sometimes used a different formulation. Near the beginning of the *Communist Manifesto*, it says, “The history of all hitherto existing society is the history of class struggles... a fight that each time ended, either in a revolutionary re-constitution of society at large, or in the common ruin of the contending classes.” (in Draper, 1998; p. 105-107) Draper explains this as “either a revolution that remakes society or the collapse of the old order to a lower level.” (1998; p. 200) Marx may have had the fate of ancient Rome in mind.

Engels restated this several times throughout his *Anti-Duhring*. He wrote that the modern working class must make the socialist revolution or else face “... sinking to the level of a Chinese coolie,” while the bourgeoisie is “a class under whose leadership society is racing to ruin like a locomotive [with a] jammed safety-valve....” (1954; pp. 217-218) For the capitalist class, “... its own productive forces have grown beyond its control, and... are driving the whole of bourgeois society toward ruin, or revolution.” (p. 228) When the capitalist system turns most people into proletarians, “... it creates the power which, under penalty of its own destruction, is forced to accomplish this revolution.” (p. 388)

Socialist revolution is not inevitable, Engels was saying here. It is a possible choice. But if it is not chosen, in the epoch of capitalist decay, society faces destruction, with the working class reduced to the level of the starving, super-exploited, Chinese workers of that time. Therefore the working class and its allies should consciously and deliberately decide to make the revolution (as we, the revolutionary minority, want it to).

Engels did not specifically state that this was a moral choice. That is implicit. There is no great ethical reasoning involved in preferring socialist revolution to the ruin of the working class and all society. The main issue is whether we agree with the political-economic analysis, as I do. Yet I regard it as a weakness that the ethical issues are not brought front and centre.

Where Engels said the alternatives were “ruin or revolution,” the great, revolutionary-democratic, Marxist, Rosa Luxemburg, said the alternatives were “socialism or barbarism.” (Geras, 1976) She believed that capitalism was in its final epoch, propping itself up by imperialism, which would lead to greater crises and devastating world wars. She foresaw that capitalism, if unhindered, would destroy culture and populations, would create deserts where there had been cities and nations. She was

history so far. And some people are simply mired in poverty and long-time unemployment: the “stagnant” reserve army.

## ★ Recessions as Healthy

The rate of profit affects the business cycle. As the economy expands again, after the last downturn, the rate of profit first goes up. But once the cycle reaches its peak, the rate goes down. New machinery has increased the organic composition of capital overall, which causes the rate of profit to decline. Meanwhile, the capitalists have been forced to raise the pay of at least part of the working class. This is due to the increasing shortage of workers as production expands, including bottlenecks caused by lack of skilled workers. Workers are more likely to strike for better wages and conditions, and the capitalists are more willing to give in. This too lowers the rate of profit.

To keep their profits coming in, capitalists borrow money from banks and each other. Debts pile up. They speculate, invest in shaky schemes, and buy into “bubbles.” This is made easier by the split in the economy between the actual commodities, the factories, and other things which were made by people, and the pieces of paper which give ownership of the things. The first is called by bourgeois economists the “real economy” and it includes goods and services which embody value. The second is called the “paper economy” or the “virtual economy.” Stock certificates provide capitalists with claims on surplus value. They are bought and sold with little relationship to the actual workplaces and work processes where the value is created. In Marx’s terms, these are “fictitious capital.”

Finally there is a crash. And a good thing too. The recessions are essential for the profitability of the capitalist economy. Weak companies, with old-fashioned technology, will go bankrupt. Their technology will either be junked or bought-up cheaply by better-run companies. Machinery in general will be cheapened during the downturn. So will labour power. There will be more unemployed; workers will be forced to accept lower pay. “Over-produced” goods will be sold off (or destroyed). Debts and speculations will be wiped out in bankruptcies. Stronger companies will buy up resources from weaker ones, creating larger corporations. All these factors clear the way for a more profitable economy.

And so there will be a new upturn, moving toward a new period of prosperity. The collapse of the crisis was essential for clearing out the deadwood and preparing for the new and bigger upturn.

## ★ Counter-tendencies to the Falling Rate of Profit

There are counter-tendencies to the tendency of the rate of profit to fall. The business cycle, particularly the downturn, mobilises these counteracting tendencies and restores profitability.

There are a number of such counter-tendencies. For example, the rate of turnover, from investment to the sale of products to reinvestment, varies from industry to industry. In itself, this may cause disproportionality. But the more rapid the turnover, the higher the rate of profit.

Imperialism, in its various forms, also increases profits. It brings in commodities with lower costs and bigger profits than can be produced at home.

The main counteracting tendencies are caused by the very expanded productivity which (due to the increased organic composition of capital) causes the rate of profit to fall in the first place. Expanded productivity makes cheaper (less valuable) commodities. If this becomes widespread, then the constant capital bought by the industrial capitalist (the machines and materials) become cheaper. Whether or not the capitalist goes out and buys the cheaper machines, the ones the capitalists keep will lose their value, become cheaper. If the capitalist makes the same profits as before, it is now compared to cheaper investment costs, and therefore the rate of profit goes up.

The same is even more true for the other costs of the industrial capitalist, the wages of the workers. As productivity increases in general, the goods which the workers buy to maintain and reproduce themselves become cheaper. The food, clothing, shelter, entertainment, and education which make up the cost of the workers' commodity labour power, all cost less labour to make (cost less value). It is now possible to lower the workers' wages and yet to maintain their standard of living. The use-value of the goods they earn remains the same while the exchange value of their pay goes down. (This lowering of pay may be done by directly cutting it or - less provocative to the workers - by inflation.) The use-values the workers can buy may stay the same - or even increase! - while the proportion they receive of the value they produce decreases. So surplus value increases, without necessarily lowering the standard of living of the workers. (This trend also makes it difficult to tell if the workers in a more industrialised country, with a higher standard of living, are being more or less exploited than workers in a poorer country.)

Further, capitalist firms get larger and larger, more and more concentrated (see below). This does not directly counteract the fall of the rate of profit. But it does produce larger amounts of surplus value in one place. This goes far to counter the immediate effects of the falling rate. (On the other hand, the larger enterprises get, the more capital is needed for investing in them, which a falling rate of profit makes it harder to acquire.)

The tendency of the falling rate of profit is a major factor in the business cycle, behind disproportionality and over-production. Historically it is countered and set right by the downturn phase of the cycle, which restores capitalism to profitability. So the system lurches forward.

Does this mean that the counteracting effects can so compensate for the falling rate of profit that over the long run it becomes meaningless? No. It is observable that, over time, the organic composition of capital (including the value composition) has increased, despite counteracting tendencies. John Henry may have used a sledge hammer but he was beaten by the steam drill, which has since been replaced

## ★ Is Socialism Inevitable?

This brings up another problem in Marx's revolutionary perspective. Was he saying that the proletarian revolution must happen or only that it could happen? What did he mean by the sentence quoted above, "Capitalist production begets, with the inexorability of a law of nature, its own negation"? This inexorability seems to present the revolutionary process as an automatic process, like a chemical or biological "law of nature." And it refers to the concept of "negation" from Hegelian dialectics. Hegel presented history (as part of nature) moving automatically through the zigzags of the dialectic to its final but pre-set goal. This is called "teleology." For Hegel the end-goal of history was his philosophical system, and - more concretely - the bureaucratic Prussian monarchy. Either through science or dialectics, human consciousness and choice do not seem to have much to do with change!

In the *Communist Manifesto*, Marx expressed the same thought, "What the bourgeoisie therefore produces, above all, are its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable." (in Draper, 1998; p. 135; more grammatically: "are alike inevitable")

This implies that history is an automatic mechanism, something which happens to people rather than something which people do. The most the working class can do is to speed up the inevitable processes, but not to make them occur in the first place. This was the main interpretation of Marxism among the Social Democratic Parties and among Marxist-Leninists.

This inevitablism combines with Marx's non-moral approach. Nowhere in all his work did he write that people should be for socialism, that it was morally right to fight for socialism, or that ethics were central to a vision of a good society. Supposedly socialism will be a product of natural processes. In fact, his writings - like his life - are filled with a moral passion, but it is not an acknowledged part of his theory.

The Italian anarchist Errico Malatesta complained that his teacher Peter Kropotkin had a somewhat similar orientation: unrealistically optimistic, mechanistic, and fatalist, not unlike the Marxists. "Since, according to his philosophy, that which occurs, must necessarily occur, so also the communist-anarchism he desired must inevitably triumph as if by a law of nature... The bourgeois world was destined to crumble; it was already breaking up and revolutionary action only served to hasten the process." (Malatesta, 1984; p. 265) Except that Kropotkin, unlike Marx, also believed in revolution as a moral cause, and sought to develop a naturalistic ethics.

The inevitablism interpretation can have unfortunate political consequences. It can justify limiting struggle to reformism, since any struggle will (supposedly) inevitably lead to revolution. It can justify a lack of struggle (Malatesta cites various anarchists who retired to private life, confident that the world would reach communist-anarchism without needing them to make any effort). It can lead to the Leninists' repression and mass murder, since it will come out all right in the end, in socialist freedom, or so they believe they know. The non-moralism and inevitablism become a problem when "history" produces something calling itself

the working people. It was from the surplus value that the rulers got their wealth. At the very least, this form of economic oppression overlapped with and interacted with all other forms of oppression. Should the workers, especially those at the very bottom of society, stand up, they would shake all of the system and raise every issue.

*"All previous movements were movements of minorities in the interest of minorities. The proletarian movement is the independent movement of the immense majority in the interest of the immense majority. The proletariat, the lowest stratum of present-day society, cannot raise itself up, cannot stand erect, without bursting asunder the whole superstructure of strata that make up official society..."*

*"The communist revolution is the most radical break with the traditional property relations; no wonder that in the course of its development there is the most radical break with traditional ideas." (Communist Manifesto, pp. 133, 153)*

It was not that the workers were morally more oppressed than anyone else. But strategically, because they produce the wealth of society, they have their hands on the means of production and distribution. They have the potential power to stop all society in its tracks and even to start it up in a different way. And it is in their direct self-interest to do so. They are the ones immediately oppressed by capitalist exploitation. It is more likely that the workers will rebel against exploitation than that rebellion will come from the capitalists, shopkeepers, or police.

As all those who sell their labour power to live, and who are not supervisors, the modern working class (including workers' spouses, children, unemployed, etc.) is the big majority of society. They include most of every other section of society which are oppressed in every other way (women, African-Americans, immigrants, etc.). Their interests are not opposed to the rest of the oppressed.

Repeatedly, proletarians have formed organisations which fight for a better world for themselves and for others. This includes large union federations as well as socialist or communist parties or anarchist federations. Repeatedly they have rebelled, with everything from massive strikes to near-revolutions to actual revolutions. In over a century and a half, the modern working class has rebelled more often and more thoroughly than any other oppressed class in thousands of years.

It is true that most US working class members are pro-capitalist as are many workers in other countries (although the US has its own history of massive union struggles). But this just means that most of the population is pro-capitalist. We are not about to have a revolution! If the working class majority is not ready for a socialist revolution, then there will not (yet) be a socialist revolution. And when they are ready..

by gigantic automated mining equipment. Shovels have been replaced by earth-moving machines as big as houses. Steel puddling by almost-automated factories. Horses by trucks, railroads, and airplanes. Paper and pencils by computers. True, the difference in value between a pickaxe and an earthmoving machine may be less than their difference in weight. Yet the tractor does cost much more than the shovel. And the number of workers it takes to dig the same size hole has gone way down. This should lead to a long term trend toward a lower rate of profit.

## Chapter 4:

# Primitive Accumulation at the Origins of Capitalism

For Marx, capitalism has a beginning, a middle, and an end. What was that beginning like? To the classical political economists, when they dealt with the question at all, capitalism began with small businesses in the nooks and crannies of feudalism. Gradually they made more money for their owners, until they could afford to hire some employees. The first workers were available to be hired because they had not been as industrious as the original businesspeople. As in the fable of Aesop, the workers had been lazy grasshoppers while the original capitalists had been hand-working ants. Eventually the capitalists became rich enough to displace the feudal lords.

To begin with, this pretty story overlooks the violent upheavals of the Cromwellian British revolution, the US revolution, the French revolution, the South American and Caribbean revolutions, and the 1848 failed European revolution. But some of this story was true, no doubt. There were blacksmiths and artisans who did build up their original capital; there were merchants who carried goods between widely separated markets until they decided to directly invest in production here or there. However, this misses the main dynamic of the beginning of capitalism. “In actual history, it is notorious that conquest, enslavement, robbery, murder, briefly force, play the great part” (*Capital I*, 1906; p. 785).

The earliest time (which I will call an “epoch” to leave room for several periods within it) was described by Marx, in *Capital I*, as a “pre-historic stage of capitalism.” Borrowing from Ricardo, Marx called it “primitive accumulation” (in German, “Ursprünglich”). This could just as well be translated as “primary,” “original,” “initial,” or “unspoiled” accumulation. For capitalism to begin on a large scale, even in only one country, it needed two things: the accumulation of masses of wealth in the hands of a few people who could invest it (capital), and secondly, free workers who were available for work in factories and fields under capitalist discipline.

In Europe, these two things were achieved through violence, legally and illegally: driving peasants off the land, replacing them by sheep; taking away the common grazing lands which had been open to all peasants and giving them to the lords; forcing poor people to wander the highways; cutting the benefits to the poor and unemployed, and so on. On a world scale, the European rulers seized continents

### ★ The Working Class?

Given the above general forecast, critics have raised various objections. One is to its focus on the rebellion of the working class (let alone of the “working men”). The critics point out that the working class has never made a successful socialist revolution (leaving aside the ambiguous case of Russia 1917). They add that the US working class, in particular, includes a great many people with conservative, even far-right, views, and the rest tend to be moderates or, at most, liberals.

There are other sources of rebellion, it is argued. There are non-proletarian classes which are economically exploited (particularly the peasants; still a large class on a world scale, if not in North America). There are non-class forms of oppression (of women, People of Colour, oppressed nationalities, Gay Lesbian Bisexual and Trans people, physically disabled, and many more). There are issues which are supposedly not directly related to class (particularly war and ecological cataclysm).

Some draw the conclusion that the workers’ class struggle is only one of, say, three or five key struggles. In practice, their political conclusions may not be very different from those of a sophisticated Marxist or class-struggle anarchist.

Others have concluded that the struggle of the working class should be dismissed as not very important. Perhaps the workers are seen as even less likely to rebel than other oppressed sections of the population. This view disagrees with the core of Marx’s Marxism. It also rejects a key component of revolutionary, class-struggle, anarchist-communism. However, there are many “Marxists” and anarchists who agree with this rejection of the working class struggle. (Marxist-Leninists pay lip service to the working class, but accept peasant-based armies led by Stalinist dictators, as in China, as socialist revolutions, and accept governments without worker control as “dictatorships of the proletariat.”)

Marx and Engels never believed that the workers’ class struggle was the only struggle of interest. As a young man, Marx had been a leader of the fight for bourgeois democracy, before he became a communist. He never stopped supporting all struggles for the expansion of democracy, such as the British Chartists, whether or not they were directly tied to the class struggle. He fought for the national liberation of Poland and of Ireland. Marx was part of the effort of the British labour movement to support the North in the US Civil War, in alliance with the most extreme abolitionists. They fought against the pro-slave-owner views of much of the British upper class (Proudhon, as a white supremacist, supported the South). This is only part of the record.

Most of all, Marx and Engels saw the need for the working class to ally with other oppressed and exploited in order to further their cause. At the end of his life, Engels was trying to persuade the German Social Democratic Party to develop a program with which to attract the mass of (mostly conservative) peasants. I am not saying that Marx and Engels had an adequate understanding of all oppressions; they did not. But they were far from advocating a working class-only perspective.

However, Marx put the working class at the heart of his strategy for liberating society. He thought that at the bottom of civilisation was a system of exploitation of

## Chapter 8:

# Socialism or Barbarism?

How would a proletarian revolution occur in Marx's view? According to the "General Law of Capitalist Accumulation," there will be increasing economic (social, and political) polarisation. At the top, a smaller and more concentrated layer of very rich people will be served by salaried employees. There will be fewer but larger semi-monopolies, increasingly integrated with the banks, with speculators, and with the state. At the other economic pole are the workers. Their wages and salaries are under constant pressure. Under them will be increasing layers of unemployed workers and a growing pool of the very poor, in the industrialised capitalist countries and world wide in the poorest nations. There is increasing "entanglement of all peoples in the net of the world-market." (*Capital I*, 1906; p. 836)

The laws of capital, however distorted in practice, will not cease. In its epoch of decline, the rate of profit declines. Stagnation increases; even the growth is one-sided and unbalanced (development here, decline there). There is unemployment, under-employment, under-use of productive capacity, economic crises, inflation and deflation, fictitious capital replacing accumulation of real capital, pools of poverty even in the richest nations, "under-development" in the most oppressed nations, with lopsided growth in some. There are constant wars as well as ecological disasters. This is our world today, isn't it?

Marx expected the working class to respond. The system itself pushes the workers to become conscious of their situation and to rebel. "With the accumulation of capital, the class struggle, and, therefore, the class-consciousness of the working-men [note], develops." (same; p. 717) There "... grows the revolt of the working class, a class always increasing in numbers, and disciplined, united, organised by the very mechanism of the process of capitalist production itself... Capital becomes a fetter upon the mode of production... Centralisation of the means of production and socialisation of labour... become incompatible with their capitalist integument. This integument is burst asunder... Capitalist production begets, with the inexorability of a law of nature, its own negation... We have the expropriation of a few usurpers by the mass of the people." (same; pp. 836-837)

and subcontinents - in the Americas, India, other parts of Asia, Australia, and Africa. Black people were forced into slavery far from their homes while Native Americans faced genocide. European people were settled on land once owned by others. The Asian-Indian economy was destroyed by foreign imports, even as natural resources (from gold to cotton) were robbed from them.

*"The discovery of gold and silver in America, the extirpation, enslavement, and entombment in mines of the aboriginal population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of black-skins, signalled the rosy dawn of the era of capitalist production. These idyllic proceedings are the chief moments of primitive accumulation."* (*Capital I*, 1906; p. 823)

Marx was fully aware of the interaction of class, nationality, and race in the origins of capitalism.

Sometimes Marxists, and even Marx himself, criticised anarchists for supposedly under-emphasising the role of economic forces and over-emphasising the power of the state. But when discussing primitive accumulation, Marx was quite clear about the key role played by the state and other forms of organised violence. While capitalism may be said to have created the modern state, the state may also be said to have created capitalism.

In *Capital I*, Marx wrote of "... the power of the state, the concentrated and organised force of society, to hasten, hothouse fashion, the process of transformation of the feudal mode of production into the capitalist mode... Force is... itself an economic power" (Marx, 1906; pp. 823 - 824).

The anarchist Kropotkin writes of the same period, "The role of the nascent state in the 16th and 17th centuries in relation to the urban centres was to destroy the independence of the cities; to pillage the rich guilds of merchants and artisans; to concentrate in its hands the... administration of the guilds... The same tactic was applied to the villages and the peasants... The state... set about destroying the village commune, ruining the peasants in its clutches and plundering the common lands" (Kropotkin, 1987; p. 41). If not precisely the same as Marx's concept of primitive accumulation, it describes the same process.

### ★ Women under Capitalism

Marx did not directly discuss the effects of primitive capitalist accumulation on gender. However, Marx's concept of primitive accumulation is directly relevant to understanding the history of women - and the role of women is essential for understanding the origins of capitalism.

Feminist historians, as well as specialists in religious and medieval history, have studied the persecution of "witches" in Europe and North and South America. This was concentrated in the 16th and 17th centuries, and somewhat before and after.

Led by the church, but including state authorities, a hue and cry was raised against women who were accused of following a heretical sect, composed almost only of women, which supposedly worshipped the devil. Special tribunals were set up, methods of torture were standardised, and witch hunting manuals were published.

The numbers of women so persecuted is unknown. Some estimates run into the millions, but the best estimate is that, over three centuries, about 200 thousand were accused of witchcraft, of whom 100 thousand were killed (Federici, 2004). It is impossible to know how many of these people were just women whom someone disliked, how many were midwives or herbalists, how many were practitioners of pre-Christian religions, and how many were genuine worshippers of the devil. If any were.

The witch hunt was an attack on half the population, mostly focused on poor women in the cities and countryside. The campaign against supposed witches was part of general misogynist sentiments promoted by the church and state. It whipped up hysteria and misdirected people's fears and angers from the rich to other poor people (similar to the rise in anti-Semitism of the time). It divided working people, causing men to cling to male privileges even while their general conditions were being undermined. It drove women out of the traditional workforce. It prepared women to become modern "housewives" and part of the working class.

While Marx does not discuss the role of women in the capitalist economy, it is implicit in his theory. Of course, women may work in paid jobs, as do male workers, and Marx describes their actual conditions in the factories and mines. In that case they were paid less than men for the same work, being more vulnerable. Female waged labour, and also child labour, was common in Marx's time in the 19th century in British industry. Female paid labour is common now. (That women workers are directly exploited does not cancel out that there may be positive effects also, such as increased individual independence.)

But there was another, and more fundamental role for women, which applies to women not as waged workers but as non-waged members of the working class. (The working class - *as a class* - is broader than those who are immediately employed; it includes children, the unemployed, the retired, and wives and mothers who labour in the home.) The commodity labour-power of the workers (mostly male) included what was necessary to recuperate them, to let them rest-up and be able to work another day. It fell on the women as "homemakers" (or "housewives") to see to it that the men were recuperated. And the price of the wage (the "family wage") also covered raising a new generation of workers. The work of doing this also fell on the women. (This included passing on the necessary social psychology and ideology to the children.)

In all this, the women at home were not *directly* creating surplus value but were producing (reproducing) the necessary labour power commodities of their husbands, children, and themselves. If we define capitalist "productive labour" only as what directly produces surplus value (as Marx did), then this was not "productive" (in this narrow, technical, sense) but it was (is) essential labour for surplus value to be produced - in plain English, highly productive labour!

*administration of things, and by the conduct of processes of production. The state is not 'abolished.' It dies out.*" (Engels, 1954; pp. 388, 389)

By contrast, Kropotkin wrote in an article on "Anarchism" for the 1910 *Encyclopaedia Britannica*, "The anarchists consider... that to hand over to the state all the main sources of economic life - the land, the mines, the railroads, banking, insurance, and so on - as also the management of all the main branches of industry, in addition to all the functions already accumulated in its hands (education, state-supported religions, defence of the territory, etc.) would mean to create a new instrument of tyranny. State capitalism would only increase the powers of bureaucracy and capitalism." (1975; pp. 109-110) Whether this involved a bourgeois state or a so-called workers' state would not make a difference.

With the benefit of over a century of hindsight, we may judge who was right.

pany towns"). This was a capitalist economy; it might be most appropriate to describe it as a "statified capitalism" (Daum, 1990).

Engels did not expect such a society to last long. "Brought to a head, it topples over." Marx had emphasised how capitals which were over-centralised for their level of technical productivity would fly apart, dissolving into smaller units, as a result of internal competitive pressures. Engels emphasised, rather, political effects. Writing about the monopolistic power of the trusts, he wrote, "... The exploitation is so palpable that it must break down. No nation will put up with production conducted by trusts, with so barefaced an exploitation of the community by a small band of dividend mongers" (p. 384). In the Soviet Union, this effect was countered for a time by the absence of a traditional, propertied, bourgeoisie and by a quasi-Marxist, pseudo-socialist, ideology. People did not see through this at first.

For whichever reason, Marx and Engels saw state capitalism as ultimately fragile. It is unable to solve the basic problems of capitalism, including its tendencies toward stagnation, increasing conflict between the capitalists and the proletarians, and an explosive, crisis-ridden, economy. In fact, the statified and collectivised form of capitalism in the Soviet Union and China did break down. Given the weaknesses of the world working classes at the time, unfortunately it returned to traditional capitalism (with a great deal of state involvement). But there is no guarantee that state capitalisms cannot arise once again, under certain conditions - conditions such as the defeat of a working class revolution.

## ★ State Capitalism and the Socialist Program

From the thirties to the eighties, there were sharp debates among Marxists about the nature of the Soviet Union (and later of its offspring). I find it astonishing how few sought to compare it to Engels' model of state capitalism. Many theorists insisted that the theory of state capitalism contradicted Marxism - in spite of Marx and Engels' clear statements. The condition which Marx and Engels saw as the culmination of capitalist decay, a great many Marxists see as the basic model of socialism.

For Engels, nationalisation of all industry by a capitalist state was not socialism but what we today would call state (or statified) capitalism. So far anarchists agree with Engels and Marx. But Marx and Engels believed that if the workers were to take over the statified economy, through their own state, then it would be, not state capitalism, but the beginning of socialism. The collectivised economy would lead to the end of classes and the state, as the state machinery turned into a benign, non-coercive, institution. Engels wrote:

*"The proletariat seizes political power and turns the means of production in the first instance into state property. But in doing this, it abolishes itself as proletariat, abolishes all class distinctions and class antagonisms, abolishes also the state as state... The government of persons is replaced by the*

In Engels' *The Origin of the Family, Private Property, and the State*, he described the reproductive work of women as being as much part of the "base" of society as is industrial production (as distinct from the "superstructure"). He speculated that class society grew out of the original oppression of women.

The above is not at all an adequate analysis of how women are oppressed; but it is clear that the oppression of women, in the family and in the workplace, is thoroughly intertwined with capitalist exploitation (as it had previously been with pre-capitalist forms of exploitation).

## ★ Primitive Accumulation's Destruction of the Ecology

Marx and Engels noted the way early capitalism was destroying the biological environment. They saw human labour as the way humans interact with nature, satisfying human needs while maintaining a biological balance. They saw this as a "metabolism" between humans and nature. But through capitalism they believed that there had developed a "rift" in the metabolism.

The most important factor, to them, was the split between city and country, between industry and agriculture, between town and farmland. This concept had been raised by a number of the "utopian socialists" before them, as well as by bourgeois agronomy specialists. Kropotkin and other leading anarchists (several of whom, like him, were professional geologists and geographers) were also to raise this as a problem, well before the modern Green movement.

What Marx and Engels noted was that the farms and the cities were increasingly separated. Agriculture drained the soil of nutrients, which had once been returned to the soil through local consumption of food and the use of animal and human manure. But now the animal and plant nutrients were shipped over increasing distances to cities. Their eventual waste was not returned to the land, but polluted the cities and the rivers and lakes around them. Meanwhile waste products from production - coal dust, dyes, cotton dust, etc., polluted the air, the water, and the food of the workers and others. Engels walked through Manchester, the centre of British industry, and noted the ill-health of the working class, the filthy conditions they lived in, and the diseases which spread through their quarters.

Of course, since then we have learnt a great deal more about the ill effects which capitalist production has on the ecological environment and on general health. But Marx and Engels saw this quite early.

During the epoch of primitive accumulation, the capitalists were able to accumulate wealth by robbing the land of its nutrients and by not paying to keep their cities clean or their working classes healthy. These were not simply matters of indifference or ignorance; they were a way to accumulate riches, to increase values.

## ★ Three Epochs

In his *Grundrisse*, Marx proposed essentially three epochs of capitalism:

*“As long as capital is weak, it still itself relies on the crutches of past modes of production... As soon as it feels strong, it throws away the crutches, and moves in accordance with its own laws. As soon as it begins to sense itself as a barrier to development, it seeks refuge in forms which, by restricting free competition, seem to make the rule of capital more perfect, but are at the same time the heralds of its dissolution and of the dissolution of the mode of production resting on it.”* (quoted in Daum 1990; p. 79)

That is, in the earliest stage, capitalism is weak. It must rely on non-market forces (primitive accumulation) for overall protection, in order to expand. It uses force, the state, religious hysteria, anti-women prejudices, robbery and slavery, “robbery” of the natural environment. This process may be said to have begun as far back as the 14th century, but reached its high point in the 17th to 18th centuries.

In the 19th century capitalism may be said to have really taken off, first in Britain and then as a world system. As this is the height of its well-being as a system, it relied mainly on market forces to batter down all obstacles to expansion. This was the hey-day of capitalism! It was also the time when the working class and socialist movements began to grow. It was when Marx wrote his books and led the First International, and in which Bakunin started the anarchist movement.

Last is the final epoch, beginning in the early 20th century, when capitalism has reached its limits and its contradictions threaten to tear apart all society. This will be discussed in the next chapter.

There are no sharp divisions among the three epochs. They are just abstractions to help us conceptualise the history of capitalism. They overlap in their traits and tendencies. Primitive (non-market) accumulation, including violence by the state, continued during the height of market capitalism and expanded again during the final epoch of capitalist decline.

For example, in the epoch of primitive accumulation, there was a vast expansion of African enslavement in the Americas. This lasted into the 19th century and was only ended through revolutionary violence in various countries (Haiti, the US, parts of South America, etc.). However, the special oppression of African descendents continued. In the US, Jim Crow segregation laws (not customs, laws) continued through the end of the 19th century and the early 20th century and were not abolished until the late 20th century. Even now, African-Americans remain oppressed, discriminated against, and mostly at the bottom of society. Capitalism does not seem to be able to end its racism.

enterprises, even automobile factories or coal mines. Even now, when the right-wing anti-Keynesians have won hegemony over economic discourse, statism has not really ended. Despite all the talk about the “free-market” and “liberty,” the right-ists have not called for diminution of the big state subsidy of arms production. Meanwhile they are champions of increased police and military power for the state.

But complete statification did not come through the merger of traditional capitalist monopolies. It came through the Marxist-Leninist-led revolutions in Russia, China, Cuba, and other countries, and the expansion of the Soviet Union’s military power into Eastern Europe. In these countries weak bourgeoisies were overthrown, but the working class was also too weak to take power (or, in the Soviet Union, perhaps, to maintain power).

As a result, the systems which developed differed from Engels’ model of state capitalism in certain ways. The powerless bourgeoisie he postulated had been wiped out. And the system covered itself in a pseudo-socialist, semi-Marxist, ideology, to justify itself and to confuse the population.

However, as Engels (and Bakunin) had described, the actual power resided in a layer of “salaried employees,” a collectivist bureaucracy. They “owned” the state property, in the sense that, collectively, they could do what they wanted with it (which is what ownership is). Collectively they held “private property,” in the sense that it was kept “private” (separate) from the mass of the population. Individual bureaucrats lived far better than did ordinary workers. They could not directly pass on their property to their children, but, by education and contacts, their children were guaranteed places in the bureaucracy.

The state remained a capitalist state, a bureaucratic-military-centralised instrument of capital accumulation. There is no such thing as a classless state, neutral as to its nature, but only depending on who controls it.

The workers remained proletarians, selling their commodity labour power, producing surplus value, producing commodities, and buying commodities on the consumer market.

Not only was these countries’ total state capital in competition on the world market, but it was internally divided into competing entities and commodity market-places. As mentioned, the workers sold their labour power for money on a labour market (there was far more labour turnover than was supposed to be). They bought consumer commodities on a market, as did the capitalist bureaucrats. Farmers worked at collective farms (officially co-operatives, not state farms) which sold goods on the markets. Plus they had small private plots which also sold food in markets. The large enterprises also sold means of production to each other (using contracts and bank accounts); therefore means of production were also commodities. And the whole thing was held together by gray and black markets, deal making and trading. There was an official economic “plan,” but it was never fulfilled - not once.

The economies of the Soviet Union and Maoist China were highly distorted and deformed forms of capitalism. The laws of capitalism operated in an indirect and mediated way. But a distorted market is still a market and a distorted capitalism is still capitalism (think of capitalism under Nazi totalitarianism or the historical “com-

nies, trusts, and state property show how unnecessary the bourgeoisie are... All the social functions of the capitalist are now performed by salaried employees. The capitalist has no further social function than that of pocketing dividends, tearing off coupons, and gambling on the Stock Exchange..."

"But the transformation, either into joint-stock companies and trusts, or into state ownership, does not do away with the capitalistic nature of the productive forces... The modern state, no matter what its form, is essentially a capitalist machine, the state of the capitalists, the ideal personification of the total national capital. The more it proceeds to the taking over of the productive forces, the more does it actually become the national capitalist, the more citizens does it exploit. The workers remain wage-workers-proletarians. The capitalist relation is not done away with. It is rather brought to a head. But brought to a head, it topples over." (Engels, 1954; pp. 384-386)

Engels was saying that the culmination of corporations, trusts, and monopolies, is state capitalism (although he never actually uses the term). He did not say whether he expected this to happen or was just describing a tendency.

As he described state capitalism, the economy is managed by "salaried employees," bureaucrats, officials, managers, etc. They are the state and as such the personification of capital. That is, they would exploit the workers in a capitalist fashion (as opposed to the methods of feudalism, or slavery, or of some new class society). He expected that the bourgeoisie will still be there, living as stock-owning parasites, but not actually managing anything.

By contrast, Bakunin predicted that a completely stratified economy would develop a new ruling class out of better-off workers and socialist intellectuals. In Marx and Engels' writings on the "Asiatic mode of production" and other aspects of pre-capitalist society, they had discussed earlier societies where the means of production, especially land, had been owned by the state, and had been collectively ruled by bureaucratic classes. They did not connect this to their writings on capitalist stratification. They felt that these societies (e.g. some of the Central American "Indian" empires) were virtually stagnant, lacking capitalism's drive to accumulate.

Under state capitalism, the proletarians will still be there (not slaves or serfs but proletarians). They will be selling their commodity labour power to the collective capitalist, the state, and will work to produce commodities, including more commodities than their labour power is worth, that is, surplus value. He did not comment on the continuation of competition internationally, between the national state capital and other capitals (either similar state capitalisms or other sorts of monopolistic businesses). It is implicit, in my opinion.

## ★ State Capitalism in Reality

The trend toward integration of the state and the capitalist economy has long been observable. Capitalist governments have owned railroads and other productive

## Chapter 5:

# The Epoch of Capitalist Decline

Every previous social system had reached an end and the same will be true of capitalism. As previously quoted, Marx held that capitalism will come to a point when "it begins to sense itself as a barrier to development...."

In his Preface to his *Critique of Political Economy*, Marx wrote:

*"At a certain stage of their development, the material productive forces of society come into conflict with the existing relations of production, or - what is but a legal expression of the same thing - with the property relations within which they have been at work hitherto. From forms of development of the productive forces these relations turn into their fetters. Then begins an epoch of social revolution."* (quoted in Daum, 1990)

Capital's powerful technology has become so vastly productive that it does not fit within the confines of a system based on private ownership, class conflict, competition, and national borders - all of which developed to serve an economy of scarcity. Production for value holds back the production of useful goods for all. Capitalism becomes less competitive; it revives older methods of non-market, statist, support; it returns to primitive accumulation. This has been called "the epoch of capitalist decay," "decline," or "parasitism;" the epoch of "monopoly capitalism," of "imperialism," of "state monopoly capitalism," of "finance capitalism," or of "late capitalism."

Of all the improvements in productivity, including automation, computers, and nanotechnology, the most significant which capitalism has created is the international working class. This class exists in concentrations in cities and in industries, working collectively and co-operatively (unlike peasants who generally work their own farms and usually want to be prosperous businesspeople). This class, with its hands on the highly productive new technology, could lead all the oppressed to create a new society, without classes, or states, or warfare, or ecological destruction. For over a century and a half, this modern working class has repeatedly struggled, under the banner of various sorts of "socialisms," to overthrow capitalism.

Marx and Engels did not live to see the actual epoch of capitalist decline (beginning about 1900 or so). But, analyses were made by various Marxist theorists, in-

cluding Hilferding, Lenin, Bukharin, Trotsky, and Luxemburg. All of them had important insights, although only Rosa Luxemburg was influential in the development of libertarian-democratic Marxist trends. However, I am going to stick as close as possible to the actual theories of Marx and Engels.

That Marx had been correct in describing an epoch of capitalist decline was easily believed from 1914 onward. There was the historically unprecedented First World War. This was followed by the shallow prosperity of the twenties and then by the worldwide, decade-long, Great Depression. There were revolutions and near-revolutions throughout Europe, the Russian being the closest to successful. Other revolutions failed in Germany, Italy, and Eastern Europe. There were big labour struggles in Europe and in the United States, as well as national rebellions in China and elsewhere. Eventually all the revolutionary struggles were defeated and replaced by totalitarian regimes. In the Soviet Union Stalinism wiped out the last remnants of the Russian revolution (anarchists believe that it was Lenin and Trotsky who first betrayed the revolution by establishing a one-party police state). Fascism came to power in Italy, Germany, Spain, and other countries. Even slavery was revived, as a state measure, under Nazism and Stalinism. Finally the period ended with the destructiveness of World War II. (I will discuss the post-war boom below.)

## ★ “Monopoly Capitalism”

What was the underlying nature of this epoch of capitalist decline? The political economists took for granted the continuing reality of a competitive capitalism, where many firms competed in a market and took the prices and rate of profit which the market enforced. Marx was one of the first to point out the drive of capitalist enterprises to grow larger and larger. He foresaw the growth of gigantic corporations due to “concentration and centralisation.” “Concentration” was the ever increasing scale of accumulation of capital, into larger and larger firms. “Centralisation” was the merger of separate capitals, either by amicable unions or by hostile takeovers of one by another.

*“This splitting up of the total social capital into many individual capitals or the repulsion of its fractions one from another, is counteracted by their attraction... [There] is concentration of capitals already formed... expropriation of capitalist by capitalist, transformation of many small into few large capitals... This is... distinct from accumulation and concentration... Competition and credit [are] the two most powerful levers of centralisation.” (Capital I, 1906; pp. 686-687)*

That this has come to pass is well-known. Just as one example, Frances Moore Lappe writes, “Just four companies control at least three-quarters of the international grain trade; and in the United States, by 2000, just ten corporations-with boards to-

In particular, they blame Engels for interpreting Marx’s materialist dialectics in a mechanistic and wooden fashion. They reject the idea that dialectics should be applied to nature and physical science at all, rather than only to human society. They especially reject Engels’ *Anti-Duhring* (and his *Dialectics of Nature*). Unfortunately for their opinion, Marx is known to have read over *Anti-Duhring* and discussed all of it with Engels before its publication. Marx contributed a chapter to it - which he would hardly have done if he disagreed with major parts of it.

The anti-Engelsian Marxists also blame him for the reformist development of the German Social Democratic Party (and the other parties it influenced). By World War I that party supported the imperialist war and the monarchist government which waged it. After the war, it sabotaged the German workers’ revolution and directed the German army in its murder of Rosa Luxemburg and Karl Liebknecht, among many others (such as the anarchist Gustav Landauer).

Was this Engels’ fault, to some degree at least? Perhaps, but only if we include that he had been unhappy with the rightward trends in the party for a long time, and said so. But he did not make a fight, hoping that the class struggle would straighten things out.

On the other hand, it had been Marx who had advocated the policy of building working class parties to run in elections, independent of the bourgeois liberal and conservative parties. It had been Marx who had declared that it might be possible for such parties to come to power peacefully through electoral means, at least in Britain or the US. (He usually added, though, that such an event would probably be followed by pro-capitalist military rebellions.) In fact, this was the biggest practical difference between Marx and Bakunin in the First International. Both sides were for forming labour unions, but the Marxists wanted to work for electoral parties and the anarchists were against them, saying they led to corruption of the workers’ movement. (In my opinion, historical hindsight shows that the anarchists were right.)

I do not mean to argue here about dialectical materialism or electoralism. Nor do I deny that Engels and Marx were different people with different styles of thinking or writing. But Engels’ work was as much a part of the basics of Marxism as was Marx’s; they are both responsible for its strengths and its weaknesses.

## ★ Engels’ Concept of State Capitalism

Engels was impressed by the rise of “trusts,” by which all the companies in an industry, on a national or international level, agreed to divide up a market and set prices. In fact though, since trusts were based on distinct companies which got stronger or weaker over time, they tended to eventually break up. They did not have the staying power of today’s multinational corporations.

*“...The official representative of capitalist society - the state - will ultimately have to undertake the direction of production... The transformation of the great establishments for production and distribution into joint-stock compa-*

## Chapter 7:

# State Capitalism

As previously quoted, Marx described a tendency of capitalism to develop larger and larger firms, in spite of counteracting tendencies toward breaking down into smaller units. The trends toward centralisation and concentration were due to accumulation (growing larger), competition (some firms beating other firms and absorbing them), the class struggle (getting larger in order to better dominate the workers), and the use of credit and fictitious capital, among other factors. Semi-monopolisation caused increasing intervention by the state in the economy, to support the giant firms. The overall trend, Marx noted, was toward a single, merged, firm (he did not say whether he expected this trend to ever be completed). By implication, this did not end competition, since even a single national firm would be in the environment of the world market, in competition with other giant firms.

In Marx's "Notes on Wagner," he wrote, "Where the state itself is a capitalist producer, as in the exploitation of mines, forests, etc., its product is a 'commodity' and hence possesses the specific character of every other commodity" (quoted in Kliman, 2012; p. 210).

### ★ Engels and Marx

This concept, of a trend toward a unified, statified, capitalism, was further elaborated by Frederick Engels in a passage in his book, *Anti-Duhring* (more precisely, *Herr Eugen Duhring's Revolution in Science*). Engels thought this passage so important, that he repeated it when he took parts out of *Anti-Duhring* to make his pamphlet, *Socialism: Utopian and Scientific*.

But first, it is useful to say something about Engels' relationship with Marx. There are those, particularly among libertarian Marxists, who criticize Engels as the first of the "post-Marx Marxists" who led the Marxist movement in the wrong direction. Rather than criticize Marx for things about the historical Marxist movement which they dislike, they blame Engels. They claim to understand Marx better than did his long-time political partner and dearest friend! If true, this should raise questions about Marx; how come he could not explain his ideas even to Engels? Engels, after all, was a very bright person, even if not a towering genius like Marx.

talling only 138 people - had come to account for half of US food and beverage sales" (2011; p. 11).

The trend was toward merger of all the capital of one country into one, which would lay the basis for state capitalism. In *Capital I*, Marx wrote, "This limit would not be reached in any particular society until the entire social capital would be united, either in the hands of one single capitalist, or in those of one single corporation."

However, this tendency was interfered with by counteracting forces (as usual!). If the mergers were not due to technical needs, then the giant capitals would tend to break up into smaller capitals, as they got bigger, due to internal competitive forces - "the repulsion of its fractions one from another."

Nor did the growth of huge firms end competition. The huge enterprises still competed with each other. Even if they were monopolies in their fields, they competed with other monopolies (for example, even a firm which monopolised aluminium would compete with the steel monopoly). Giant firms often found it useful to use smaller firms (as the auto producers distribute through dealerships). New inventions arise which can force their way into the political economy (as personal computers did). And there are international firms: for decades no US firm could break into the domination of the auto industry by GM, Ford, and Chrysler. Then giant auto makers from Japan, Korea, and Germany (with backing by their states) were able to successfully compete with the former Big Three.

This development was called by Lenin and others "monopoly capitalism." It would be more accurate to call it "oligopoly capitalism," meaning the rule of the few. Even if a small number dominates a field, these semi-monopolies distort the forces of the market in a monopolistic manner (bourgeois economists call this "imperfect competition"). This includes distortion of the law of value (the tendency of commodities to exchange according to the amount of socially necessary labour they embody). *But even distorted markets are still markets; even distorted value relations are still value relations.*

Marx saw the growth of centralised big business as mostly progressive. He was aware that it caused great suffering for the workers, but he believed that it laid the basis for socialism (communism), the end of classes and poverty.

Anarchists had a more critical attitude toward the growth of big business. They agreed that it made possible someday a co-operative, non-profit, system of production: socialism. Yet only some of the economic centralisation was due to technically more efficient methods of production (a point which does not contradict Marx's premises). Often firms merged solely for financial reasons, or in order to increase their power over the workers, or to have better access to markets. Such weak reasons often caused these semi-monopolies to break apart after a while. "Monopoly capitalism" often caused over-centralisation, which interfered with efficient production and distribution, and which held back inventiveness (new inventions and new job creation are more likely to occur among smaller firms than larger ones). This view was consistent with the anarchists' goal of an economy which would be socialised and co-operative while also radically-democratic with a decentralised federalism.

## ★ Effects of Oligopoly on the Capitalists

It is sometimes stated that Marx predicted that the growth of concentrated capital would end the existence of middle layers between the stock-owning bourgeoisie and the working class. This is not true. Marx did expect that small businesspeople, independent professionals, and small farmers would decline in numbers with the growth of big business. But he also predicted that huge firms would cause a split between the ownership of capital and the job of managing the firm. "An industrial army of workmen, under the command of a capitalist, requires, like a real army, officers (managers), and sergeants (foremen, overlookers)... The work of supervision becomes their established and exclusive function" (*Capital I*, 1906; p. 364). As capitalist enterprises expand, the capitalists themselves become superfluous, at least to the productive aspects. The managers manage. The capitalists invest in the stockmarket.

This new layer of managers and supervisors has basically two tasks. One is the technical co-ordination of the various work taking place. This is something which would have to be done in any economic system. Under socialist democracy, it might be done by the workers meeting to plan their work, or the workers might elect a co-ordinator, or they might take turns. To the extent that the capitalist managers are doing necessary technical work, they are part of the collective labour that produces the commodities.

On the other hand, they are agents of the capitalists and personifications of capital. Their job is to drive the wage slaves to their labours and make sure the workers do not "goof off." While the supervisors may have interests which clash with the capitalist owners, as far as the workers are concerned they are part of the class enemy.

For Marx, the replacement of family-owned and managed firms by ever-larger stock companies points to the end of capitalism, its last phase. He summarizes, "This is the abolition of the capitalist mode of production within the capitalist mode of production itself... It establishes a monopoly in certain spheres and therefore requires state interference. It reproduces a new financial aristocracy, a new variety of parasites... a whole system of swindling and cheating by means of corporation promotion, stock issuance, and stock speculation..." (*Capital III*, 1967; p. 438). He thought that the growth of semi-monopolies would result in more state involvement in the economy as well as the growth of finance and speculation (all of which came true).

## ★ Effects of Oligopoly on the Working Class

Another frequent misinterpretation of Marx is his supposed "theory of immiseration" - that the growth of big business would result in increasing poverty among the working class. This is a misrepresentation of his "general law of capitalist accumulation." (To repeat: all of Marx's "laws" are "tendencies," which

## ★ Unproductive consumption

Marx divided the economy roughly into a Department I (producing constant capital) and Department II (producing consumer goods). Mostly Department II provides for the working class (variable capital). The workers need their food, housing, health-care, and entertainment, in order to re-enter the cycle of production - that is, to go to work the next day.

The capitalists also consume commodities, of course. However, their gourmet meals, mansions, and yachts are luxuries; they do not re-enter the cycle of production, because the capitalists are not necessary for production. Marx treated this as a sliver of Department II, unproductive consumption. It is distinct from the productive consumption involved in using up goods in the process of producing surplus value. The capitalists' unproductive consumption of luxuries is paid for entirely out of the capitalist's revenue (using up surplus value, not creating it). The middle layers of society mostly work for the capitalists (directly or indirectly) and are paid for out of surplus value (they do not create new surplus value).

With arms spending and similar forms of wasteful production, there has been an enormous expansion in this "luxury" production. Some post-Marx Marxists prefer to put luxuries, arms production, and similar waste, into a Department III. These are *non-reproductive production*, or unproductive consumption.

Government arms production, fictitious capital, primitive accumulation, and financialisation went a long way to keep capitalism going after World War II. The apparent prosperity lasted for about 30 years. Since then it has been downhill and getting worse. There is a reassertion of the underlying tendencies of the epoch of capitalist decay. That is what we are now living through and will continue to live through, I believe, until there is either a collapse of civilisation or a working class-led revolution.

My reason for discussing the post-war boom was not to lead up to an analysis of the current economic crisis or to predict the future. It was to demonstrate that the period of apparent prosperity did not contradict the concept of the epoch of capitalist decay. Also to show that Marx's concept of fictitious capital is useful for understanding the world today.

Nor are arms production or other forms of public expenditure the only creation of fictitious capital. When houses go up in price in a housing bubble (but nothing new has been added to the housing, and there is no new real wealth), this is fictitious capital. When oil is produced and the profits do not take into account the future need to pay for reaching hard-to-get oil, that is fictitious capital. Rent of land which has not been improved by human labour is fictitious capital. Wealth created by primary accumulation is fictitious capital.

When there is speculation on stocks and bonds, with increasingly remote relations to the real economy which they supposedly represent, this is fictitious capital. When ever more complex financial “instruments” are created, so complex that even those who design them have difficulty understanding what they really stand for, this is fictitious capital. “Everything here appears distorted, since in this paper world, the real price and its real basis appear nowhere, but only bullion, metal coin, notes, bill of exchange, securities... The entire process becomes incomprehensible...” (same; p. 490).

During times of prosperity, it is taken for granted that the paper wealth represents real wealth and can be turned into real wealth whenever needed. Meanwhile the paper (or blips on a computer screen) is bought and sold, exchanged and rearranged, making everything look prosperous and profitable, despite the stagnation in the real economy.

Especially when the profit rates of the real economy stagnate or decline (due to the falling rate of profit and the growth of monopoly), then there is pressure to make money by investing in ever-more fictitious capital. This has been called the “financialisation” of the economy. This refers to the increasing investments in loans and exotic derivatives. (It does not necessarily refer to Hilferding’s and Lenin’s theory that the banks dominate the capitalist monopolies; this was true only for a while. What is true is that the banks have become semi-monopolies and are integrated with the rest of oligopoly-financial capitalism.)

In a downturn, suddenly there is a dash to turn the paper into real products, or to make sure that they do represent real commodities (e.g., gold or houses or machinery). The need for goods and services which have been produced by socially-necessary labour reasserts itself, as the economy goes from fictitious value to real value. It turns out that there is much less value than there has been fictitious value. As in a game of musical chairs, a lot of capitalists have nowhere to sit.

A big crash, at the end of a business cycle, would clear away a lot of that fictitious capital. But the long prosperity which has modulated the cycle has prevented such crashes. Therefore the amount of fictitious capital - of debt and financial speculative instruments - has continued to increase to mountainous proportions, of government and private forms. This continues to put pressure on the system for a real, big, crash to re-stabilise the system.

work their effects despite counteracting tendencies.) He did not think that all workers would be immediately and constantly driven to extreme poverty. He knew that workers could be relatively well-paid, while still being exploited. He expected that workers would earn higher pay during periods of prosperity in the business cycle.

The capitalists constantly push down on the workers’ standard of living and the workers push back. For a time, this evolves into a relatively stable value of the commodity labour power. But the capitalists will continue to press the workers, especially when profit rates decline (discussed further below) and when the bosses feel stronger due to increased centralisation. Increased productivity permits the capitalists to keep or even lower the value of what they pay the workers, while maintaining their standard of living as judged by use-values. This is at least until the crisis gets so bad, the profit rate gets so low, that the capitalists have to attack the workers and drastically cut their wages.

The workers fight back to maintain the standard of living for themselves and their families-and, if possible, to improve it. This is good, but in itself, Marx said, it does not directly challenge capitalist exploitation as such.

*“Just as little as better clothing, food and treatment... do away with the exploitation of the slave, so little do they set aside that of the wage worker. A rise in the price of labour... only means, in fact, that the length and weight of the golden chain the wage worker has already forged for himself, allow of a relaxation of the tension of it... The condition of [labour power’s] sale, whether more or less favorable to the labourer, include therefore the necessity of its constant re-selling....” (Capital I, 1906; pp. 677-678)*

As capitalist accumulation and centralisation increase, the workers’ wages may get better for a time or may decrease. Nevertheless, their domination by the ever-increasing power of the capitalists worsens. Meanwhile, increasing productivity (the increasing organic composition of capital) continues to decrease the proportion of human labour which is needed in production. People lose jobs, which expands the reserve army of the unemployed, the pool of unemployed workers. Their poverty and misery *does* get worse over time, and threatens to pull down the standards of even the organised employed workers.

*“In proportion as capital accumulates, the lot of the labourer, be his payment high or low, must grow worse... This law rivets the labourer to capital....” (Capital I, 1906; pp. 708-709; my emphasis)*

## ★ Oligopoly and the Rate of Profit

How is the tendency of the rate of profit to fall affected by the tendency toward oligopoly, monopoly, and even complete unification (state capitalism)? Clearly, pro-

ductivity continues to increase, which raises the organic composition of capital, which should decrease the rate of profit. But does it?

The immediate effect of monopoly/oligopoly on profit rates is to interfere with the average rate of profit. The giant firms can raise their prices and thereby their profits, without worrying that other capitalists will invest in their field and bring down the prices and profits. Because of their monopoly position, they can keep out other possible competitors (by definition; this is what makes their position a monopoly). Their monopoly (or semi-monopoly) position may be due to ownership of patents or to their huge size. It takes a great deal of capital to break into the US steel or auto industries (which is why it took foreign giants to do it).

Therefore the giant firms may get and keep a disproportionate amount of the surplus value produced in society. Which means that the weaker, smaller, firms are getting proportionately less (the surplus value has to come from somewhere). However, this does not change the total amount of surplus value produced by society's collective body of workers.

Another effect of concentrated and centralised big businesses is that they produce large amounts of surplus in one place. While the rate of profit may not be high, the lump sum of any one corporation will be large. This does not change the actual rate of profit, but it changes the effects of the declining rate of profit. A large, concentrated, sum of money can be used for further investment in a way that the same sum of money, scattered around in small firms, cannot.

Large firms may also increase profits due to economies of scale in production. However, as anarchists and other decentralists (Borsodi, Schumacher, etc.) have argued, there are also diseconomies of scale which are rarely looked at. For example, a centralised factory which produces all the wickets in the world may produce them much cheaper than would local wicket-making workshops. But the factory would have to import raw materials, machinery, and workers from great distances, and then to ship the finished wickets great distances. This creates costs which local production would not have. These diseconomies of scale may be one factor in the splitting up of overlarge semi-monopolies. Whether the costs of distribution balance the advantages of centralised production has to be determined empirically, but rarely is. (In the 1930s Ralph Borsodi calculated that 2/3 of goods were more cheaply made locally, with small machines, than on a national scale. But technology has changed a great deal since then, and he did not calculate for regional production.)

Also, monopolies and semi-monopolies are under less competitive pressure and therefore may be less inventive and productive. Monopolies tend to stagnation. On the one hand this produces less surplus value. On the other hand, by slowing down growth in productivity, it slows down the growth of the organic composition of capital and therefore of the fall in the rate of profit. How this balances out is an empirical matter. But in the long run, the fall in the rate of profit cannot really be counteracted by other causes of stagnation.

However, the most important effect of the growth of large concentrated firms on profit rates is its effect on the business cycle. If the cycle goes all the way through to the final crash (as it did in 1929), under oligopolistic capitalism the crash will be

government pays businesses to produce tanks? Once in existence, the tanks either stay at home, producing nothing, or they are sent abroad, where they destroy things. This is even more true for intercontinental nuclear missiles. Much value goes into making them, but they are not to be used and hopefully will never be used. Whatever their political or military significance, economically they are the same as paying people to dig big holes and fill them in again.

Suppose the government decides to make some missiles. It has a fund of money, some from taxes (ultimately from the pool of surplus value) and most from borrowing (selling bonds). It pays a capitalist firm to make them (including what the firm counts as profit). The firm buys necessary material (constant capital), such as steel and machines. The firm hires workers (variable capital) to make the missiles. At the end of this process (1) the government has gone deeper into debt, (2) but the buyers of the government bonds count themselves as having new wealth, (3) the firm has profits which it pays out to its stockholders and/or saves for further investment, (4) the workers have their wages which they spend on consumer goods, health care, and sending their children to college. BUT while all this paper (bonds, stocks in the arms company, money) has increased and continues to circulate, there are no new products on the market! The paper wealth which is circulating is what Marx called "fictitious value" or, when used as capital, "fictitious capital."

It is sick enough to think of an economic system which sustains itself (in large part) by preparing for mass nuclear death. It is even sicker to have an economy which sustains itself by effectually producing... nothing. This is the epoch of capitalist decay.

## ★ Fictitious Capital

Marx referred to "real capital (commodity-capital and productive capital)" (*Capital III*, 1967; p 476). This is distinct from "imaginary" or "fictitious capital," such as treasury bonds. These represent past loans of money to the state, money which has been spent by now. What the bond-holders have is "a firm claim upon a certain portion of the tax revenue... These promissory notes, which are issued for the originally loaned capital long since spent, these [are] paper duplicates of consumed capital" (same; pp. 476-477). Yet they can be bought and sold as though they were real. Marx goes further:

*"Titles of ownership to public works, railways, mines, etc., are indeed... titles to real capital... They come to nominally represent non-existent capital. For the real capital exists side by side with them and does not change hands as a result of the transfer of these duplicates from one person to another... As duplicates which are themselves objects of transactions as commodities, and thus able to circulate as capital-values, they are illusory... This type of imaginary money wealth not only constitutes a very considerable part of the money wealth of private people but also of banker's capital...."* (same; pp. 477-478)

## ★ The Limits of the Post-War Boom

Liberals wondered, if the state could spend so much money on war and preparing for war, why not get the same economic effect by spending funds on socially useful causes: healthcare for all, new schools, the natural environment, houses for the homeless, etc.? Liberals have called for a “new New Deal.”

In the most abstract sense, this could be done. Western European countries, which have had influential social democratic or “Communist” parties, provide more and better social services than the US does (beginning with universal health coverage) - within the limits of capitalism. However, there are class reasons why the capitalist state cannot provide vast funds for social purposes. Even in Western Europe, social services have been under fierce attack for some time, although they start from more benefits than the US population ever had.

Quite simply, the capitalist class does not intend to let a large chunk of its collective profits (total surplus value) be handed over to the working class. This would cut down overall profit, and politically strengthen the workers. With more social support to fall back on, the workers might be more willing to strike and to demand higher pay. Socially useful products, such as houses, food, medical care, etc. would compete on the market with the same commodities made by private capitalists. Ideologically, if the US population saw that the state could provide a high level of benefits and could produce needed products, then it might think, “Why do we need the capitalists?” The workers might start thinking in terms of some sort of socialism. This would not do, from the viewpoint of the bourgeoisie. This is not why they have a bourgeois state!

On the other hand, military spending is acceptable because it is a direct state subsidy to big capitalists. It does not compete on the market place (no one makes nuclear missiles for private sale, not legally). It channels value to some of the biggest corporations. It has its own ideological justification (“defence”), so it can be ignored when the politicians cut social benefits for workers and the poor.

I am focusing on the economic effects of military spending, but I do not deny that it does have its uses for the empire. The US does need materiel in order to invade little countries. Even nuclear missiles are supposedly useful for deterring nuclear attacks from enemies, although this reaches crazy thinking (since any use of such “weapons” would destroy both the attacker and the defender).

But the economic basis of military spending becomes obvious every time the government considers adding new weapons or cancelling old ones. The companies which make them throw their lobbyists into high gear. They whip up the workers who make these products to demonstrate and organise. The politicians from the areas where they are made (and even from completely separate areas) demand the construction of this product, just as their capitalist masters (donors to their re-election campaigns) tell them to.

But armament spending has an inherent weakness. When tractors, for example, are produced, they can be used by farmers to grow things. If bulldozers are built, they can be used in the following production cycle to make buildings. But what if the

very bad indeed. The businesses are huge so their fall will be huge. They owe huge debts, to other companies and to the banks. They employ large numbers. They buy and sell from each other as well as from many smaller firms. Their boards of directors overlap. So if any of them fall, the effect on the whole of the economy is enormous. The problem of getting an oligopolistic economy back up on its feet is also enormous. While classical bourgeois economists claim that an economic slump will always cure itself, Keynes argued that this was no longer automatically true. In the age of semi-monopolies, he was right. The Great Depression lasted for ten years, and still had almost 20% of the US workforce unemployed at the end. It took a world war to finally end it (see below).

Therefore the capitalist class and its economists and politicians have determined not to let another Great Depression happen. The corporations and banks are just “too big to fail” (as the slogan goes), or rather, “too big” to be *allowed* to fail. Governments and central banks will do all they can to prevent another Depression. The usual methods are economic stimuli and subsidies, tax cuts, and monetary manoeuvres which decrease interest rates.

Assuming these methods work, for a time at least, they may not completely banish the business cycle and its crashes, but they may modulate them, make them less disastrous. However, this has an unintended consequence. Lesser downturns cannot do their historical task of cleaning up the capitalist economy. Without big crashes, inefficient businesses may not go bankrupt; inefficient parts of monopolistic combinations may stay in business (as opposed to becoming “lean and mean”); the costs of materials will not decline as much; the level of wages will not decline much either; debts will not be written off but will continue to accumulate. As the costs of doing business do not decline, so the rate of profit does not get a boost, counteracting its tendency to fall. The shallowness of the business cycle in the 1950s, which bourgeois economists were so proud of, was preparing the way for greater disasters.

## ★ The Return of Primitive Accumulation

Increasing wealth by non-market, or at least non-value-producing, methods never went away, even at the height of capitalist development. Now it has returned with a vengeance. Since it is no longer “primitive” (or “primary”), other terms are sometimes used; David Harvey (2010) prefers “accumulation by dispossession,” for example. It includes privatisation of public industries, privatisation of natural resources (such as water), the whole process of de-nationalisation of the former “Communist” countries (turning the economy over to traditional capitalists), the stripping of assets from weaker corporations, efforts to patent genetic material, continuing to drive people off the land in China and throughout the world, etc.

This newer primitive accumulation applies above all to the looting of nature. The ruling class acts like the capitalist management of a firm which sells its commodities for the equivalent of variable capital, constant capital, and the average

profit. After selling its commodities, it should put aside money from the equivalent of the constant capital to eventually pay for new machinery and buildings when the old ones wear out. But instead, it does not. It counts its equivalent of constant capital instead as part of its profit, thus creating what seems to be a larger profit than it is really earning. A part of its profits is really fictitious. Perhaps it uses some of the constant capital value to buy off the workers with higher pay (counting it as variable capital). The day will come when its machinery will wear out. Then this seemingly prosperous firm will fail because it cannot replace the machines.

The bourgeoisie of the US and the rest of the world should have been putting aside wealth to prepare for a transition from oil, coal, and natural gas to renewable energy. It should have been paying to clean up the environment and preventing global warming. Instead it has been counting its wealth as profit and buying off a layer of the working class with an apparently decent standard of living.

Meanwhile our whole civilisation is built on carbon-based fuels (oil, coal, and natural gas). Not only our transportation system, but also our food (which relies on artificial fertiliser and artificial pesticides, made from oil). And there are all the things we use plastics and artificial fibres for (from oil). But these are limited, non-renewable, raw materials, which sooner or later will run out and meanwhile get harder and harder to get to. They pollute our foods, our land, our air, and our water. And they are causing global warming, which will cause a world wide catastrophe.

Sometimes, when gasoline prices go up, liberals claim that the oil companies are deliberately over-pricing it. This may be immediately true, but in the long run, it is the opposite of true. Because the oil companies do not include the costs they will eventually need in order to reach hard-to-get oil or to develop new energy sources once current oil sources run low, they are all under-pricing the real costs of oil production! (The conservatives claim that to change to renewable energy and an ecologically sustainable economy would be difficult and expensive; the conservatives are correct.)

Nor is this looting of nature just a matter of oil and energy production. The world's forests (the "lungs of the earth") are being destroyed. The oceans are being over-fished to extinction. Other species are being wiped out. Capitalism treats the world as though it were an inexhaustible mine. Marx and Engels did not foresee all this; they expected a socialist revolution well before humanity got this close to the edge. But their tools help us to understand it.

## ★ Imperialism

For reasons known only to himself, Lenin named only the epoch of late capitalism as "imperialism." Actually capitalist imperialism goes back to the foundations of capitalism, with the British, Spanish, and French empires, among others. (Not to mention the existence of pre-capitalist imperialism, such as the Roman empire or the Chinese empire.)

## ★ Causes of the Post-War Prosperity

If, as I claim, capitalism has been in its epoch of decline, then it is necessary to ask some questions: What caused this post-World War II boom (even with its limitations)? Did it disprove the concept of the epoch of the decay of capitalism? My answer, briefly, is that *what the Great Depression could not do to restore capitalism to apparent health, the world war could do.*

The Depression could not do enough to destroy the values of constant capital, but the world war destroyed constant capital itself - factories, machines, roads, buildings, and raw materials went up in flame all across Europe and Asia. These were rebuilt after the war with the most modern, productive, technology.

Similarly the value of variable capital - the commodity labour power - went down with the massacres and social destruction of the war around the world. It took decades for the educated and skilled workers of Europe to regain their pre-World War I standard of living. In this case, though, capitalism also benefited from thirty years of working class defeats, of failures to make revolutions, and of successful counter-revolutions, with the horrors of Nazism and Stalinism. That culminated in the period right after World War II, when social democratic and Stalinist parties held back working class struggles everywhere.

The US economy was pumped up through the massive stimulus of military spending, far more than the New Deal had ever attempted. The state took wealth from all of society and concentrated it into the hands of a few "centralised and concentrated" semi-monopolies. High levels of military spending continued after the war, both of conventional armed forces and of nuclear-armed missiles and bombers. President Dwight Eisenhower was to call this the "military-industrial complex," and some Marxists called it the "Permanent Arms Economy." It was also referred to as "military Keynesianism" or "weaponised Keynesianism."

Concentration was increased on a world scale as international imperialism was reorganised. The British empire (and the French, the Dutch, etc.) was essentially superseded by the hegemonic rule of US capital. The dollar became the dominant world currency.

In the US, the war was followed by an expansion of debt and speculation, particularly in the fields of FIRE (finance, insurance, and real estate). Meanwhile there was an explosion of the automobile industry, which expanded the steel, rubber, and glass industries, highway construction, and resulted in the construction of suburbia.

These forces countered the long-run tendencies of stagnation and decline. They did not run out of steam until the middle of the 1960s. From 1970 to the mid 70s, the world capitalist economy began to slide downhill again (with ups and downs), deeper into stagnation.

## Chapter 6:

# The Post-War Boom and Fictitious Capital

After the end of the Second World War, most economists predicted a return to depression conditions. This included most bourgeois economists as well as almost all Marxist economists. This did not happen. Instead there began a new period of prosperity, sometimes even called the “Golden Age” of capitalism, which lasted for about thirty years.

There was relatively high employment; houses and cars for most (white) working families; usually only the husband had to work; higher education for their children; and “labour peace” in big industries between management and the unions. In apparent contradiction to the theory of permanent revolution, fascism was overcome in Europe (except for Spain and Portugal) and bourgeois democracy restored. Increasing numbers of colonised nations won their political independence. To most people, it looked as if any notion of capitalism being in decline was preposterous. The only enemy was the totalitarian and atheistic “Communist” states.

Still there remained some problems. On the world scale, capitalism remained unable to industrialise the poorer nations. Even the Western European countries took decades to rebuild their prosperity. “Communist” and nationalist revolutions continued to happen in the poor countries (especially China, Korea, Vietnam, Yugoslavia, and Cuba) and Italy and France had large “Communist” parties. The imperialist countries continued to get into colonial wars (the biggest for the US being in Korea and Vietnam). As mentioned, the existence of nuclear weapons was something to worry about.

Meanwhile even in the US, there were pockets of poverty (the “Other America”). The whole of the South was impoverished and held back by its vicious anti-Black laws. The unions abandoned their efforts to organise the South. Millions of African-Americans lived under a form of totalitarian repression. A right-wing anti-communist hysteria swept the nation, driving leftists out of the unions and out of employment, attacking freedom of speech and association. The economy as a whole still went through business cycles, from boom to bust, even if in a shallower, more moderate, fashion than before.

Marx wrote a fair amount about the imperialism of his time in his political writings and anthropological notebooks - especially about the British rule over India, China, and Ireland, the Dutch rule over Indonesia, the Russian rule over Poland, and the French attempt to conquer Mexico. But he did not write much about its economics.

Marx regarded foreign trade by the industrialising capitalist countries of Western Europe as an essential background to their development. Driven by the need to make profits, the original industrial capitalist regimes went abroad to exploit the labour force, the raw materials, and the consumer markets of poorer nations.

In the *Communist Manifesto*, Marx declares of the bourgeoisie, “The cheap prices of its commodities are the heavy artillery with which it levels all Chinese walls to the ground... It forces all nations to adopt the mode of production of the bourgeoisie if they do not want to go under; it forces them to introduce so-called civilisation at home, i.e. to become bourgeois... It has made... the peasant nations [dependent] on the bourgeois nations, the Orient on the Occident” (in Draper, 1998; pp. 115-117). Marx wrote that capital in the developed countries would take advantage of cheaper labour and the higher levels of exploitation in the poor nations.

The directly capitalist methods were tied up with primitive accumulation, the looting of local peoples of their wealth by force and fraud. Although formal colonialism (the ownership of other countries by the imperial home countries) is mostly over, the looting continues today, through investments, high-interest-rate loans to governments (including by the IMF and the World Bank), unequal trade, control over international patents, etc.

Marx’s attitudes toward early capitalist imperialism was somewhat ambivalent. He saw it as laying the basis for industrialisation and modernisation in the poorer nations, a way to break them out of (as he saw it) the stagnation of pre-capitalist societies. Yet he was aware of the suffering which capitalist imperialism caused among ordinary people, the destruction of harmless ways of life. He was sympathetic to anti-imperialist rebellions, as in India and China. He came to consider it possible for a pre-capitalist society to go directly to socialism, skipping a “capitalist stage,” provided it was helped by proletarian revolutions in the industrialised countries. Today it is clear that once capitalism reaches its epoch of decay, imperialism is a completely reactionary phenomenon.

There are various Marxist theories of current imperialism, which I will not review in this introductory text. Suffice it to say, that the giant semi-monopolies of the rich countries dominate the world market, driven by the need to make profits and accumulate value. As such they also dominate the poorer, oppressed, countries, in order to drain them of their wealth. To maintain their power, the capitalists of the imperialist nations can use the military forces of their national states to invade and occupy the weaker countries. Implicitly, they also use them to warn off rival imperialist states. This is most true for the rulers of the United States.

In competition with other imperial states and needing to oppress poorer countries, the great imperialists have repeatedly gone to war with each other and with the oppressed nations. They have developed weapons of such awesome power that they could wipe out civilisation and perhaps exterminate life on earth. Only the power of

these nuclear and biological weapons kept the US and the USSR from waging a third world war. They did not prevent many smaller wars by the imperialists against oppressed nations. Now that the Cold War is over and the Soviet Union as such is gone, nuclear bombs are more widespread than ever before. They are under the control of more, often unstable, governments, as well as the increasingly desperate imperialist states. This remains an extremely dangerous situation for human survival.

## ★ The Permanent Revolution

The epoch of capitalist decline has a political effect. At its birth, the ideologues of capitalism developed the program of bourgeois-democracy. It was based on the nature of capitalism itself. All people were supposedly equal, free, atoms in the marketplace and therefore they should be free and equal citizens in the state. When buying and selling in the market, people's race, religion, gender, family background, country of origin, etc. do not matter; all that matters is how much money they have (a quantitative, not a qualitative, difference). Similarly, all citizens should be equal, with one (adult) person, one vote. "An inalienable right to life, liberty, and the pursuit of happiness." "Liberty, equality, and fraternity" (or "solidarity"). This implied representative governments, land to the peasants, national self-determination, and freedom of speech and association. There should be no oppression or discrimination based on anything but lack of money.

Of course, capitalism has never lived up to its promised program! Every expansion of democratic rights was won by the blood of the people fighting the capitalists. Yet over time, there was an expansion of bourgeois democratic rights and general freedom. The right to vote was expanded in country after country. Absolute monarchies were replaced by either republics or, at least, constitutional monarchies. Women's rights were expanded. Slavery was abolished. And so on.

But Marx foresaw that the growth of capitalism would lead to a decline in capitalism's own democratic program. The problem, as Engels and he came to see it, was that the expansion of capitalism meant the expansion of the working class. The bourgeoisie became more afraid of the proletariat than they were of undemocratic, authoritarian, rulers. A successful revolution against the feudal aristocracy would inspire the workers to continue the revolution into one against the bourgeoisie. Increased democracy would be used by the workers to organise themselves against the capitalist class. This would threaten the bourgeoisie.

In their *Address of the Central Committee to the Communist League (March 1850)*, Marx and Engels drew the lessons they had learned from the defeat of the 1848-1850 European revolutions. They concluded that the workers should support the liberal democrats against authoritarian states, but never trust them; they will sell out the struggle for fear of the working class. The workers should organise independently of the bourgeoisie, even of its most liberal wing. The workers should push to go all the way, to workers' rule and the beginning of socialism, as the only way to achieve even the limited demands of bourgeois democracy. They concluded by say-

ing of the workers, "*their battle-cry must be: The Permanent Revolution*" [or, "The Revolution in Permanence."] By "permanent," what they meant was "uninterrupted," "going all the way," "not stopping at any stage."

In its epoch of decline, capitalism ceases to be a champion of even bourgeois democracy. For democratic rights to be won securely, the working class must lead its allies to overthrow capitalism totally and create a true, full, socialist (communist) democracy (self-ruling system of councils, workers' management of production, etc.). To win stable, lasting, consistent bourgeois-democratic rights, it is necessary to go beyond capitalism all the way to socialist democracy. Marx and Engels noted the rise of the semi-autonomous bourgeois state, with a bureaucratic-military executive, serving capitalism overall but not directly controlled by the capitalist class. They called this trend "Bonapartism," after the rule of Napoleon and later of his nephew.

The slogan of "permanent revolution" is often, even usually, linked with Leon Trotsky. It is therefore assumed to be part of the Trotskyist program (a variant of Leninism). Actually, permanent revolution was first raised by Marx and Engels. Trotsky and others picked it up later and elaborated on it. Interestingly, in the period when Trotsky elaborated his version of permanent revolution (the early 1900s), he was not a Leninist but an opponent of Lenin's view of the party (then holding a position similar to Rosa Luxemburg). He changed his views on this later, but the other Leninists never accepted his (or any other) theory of permanent revolution.