Globalisation: The Socialist Perspective

Part Two

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Nick Beams, a member of the International Editorial Board of the World Socialist Web Site *and National Secretary of the Socialist Equality Party of Australia, recently completed a successful lecture tour of six Australian universities. Beams' lecture*—Globalisation: The Socialist Perspective—*was attended by students, academics, workers and professional people in Sydney, Melbourne, Newcastle and Canberra. The* WSWS *is publishing the lecture in three parts.* Part One *was published on June 5 and the* final part *on June 7.*

The eruption of the so-called Asian economic crisis in 1997-98 delivered a shattering blow to the proponents of the "free market". After all, the growth in this region had been dubbed by the World Bank in 1993 as the "Asian economic miracle"—testimony to the ability of the capitalist market to put an end to poverty.

Undeterred, however, by the obvious contradiction between their claims and the test of experience, the leading representatives of global capitalism mounted an even more strident defence of the "free market".

In a major speech delivered in April 1998 as the Asian financial crisis was in full swing, the chairman of the US Federal Reserve Board, Alan Greenspan, proclaimed that the crisis was "an important milestone in what evidently has been a significant and seemingly inexorable trend toward market capitalism". According to Greenspan, the market arises from a "deeply embedded set of stabilities in human nature" and "history is strewn with examples of economic and social systems that have tried to counter, or alter, human nature and have failed."

It seems that the ideological defenders of capitalism have not advanced much beyond the conservative English philosopher of the 18th century, Edmund Burke, who proclaimed capitalist society to be both natural and sacred. "The laws of commerce," he wrote more than 200 years ago, "are laws of nature, and consequently the laws of God."

Or as Greenspan put it, "the lesson that appears to be emerging is that only free market systems exhibit the flexibility and robustness to accommodate human nature and harness rapidly advancing technology to consistently advance living standards."

Our task, however, is not merely to present as an empirical fact the glaring contradiction between the real situation confronting the majority of the world's people and the pronouncements of the defenders of capital on the wonders of the free market and the virtues of the profit system.

It is necessary to reveal why deepening social polarisation, in which, to use Marx's words, "the accumulation of wealth at one pole is ... at the same time accumulation of misery, agony of toil, ignorance, brutality, mental degradation, at the opposite pole ..." is embedded in the inherent logic of the profit system. Furthermore we must establish how the very development of global capitalism not only makes necessary the passage to a new and higher social system based on the fulfillment of human need, but indeed lays the objective foundations for it.

Accumulation of profit

To conduct this analysis it is necessary to establish some fundamental issues. Capitalism as a social system of production is not directed to the production of wealth as such and, contrary to the rhetoric of the "free marketeers", it is not a system of production whose goal is the satisfaction of consumer wants and needs.

The driving force of the capitalist mode of production is the accumulation of profit—the endless expansion of value—the source of which is the labour-power of the working class.

Every class society is, in the final analysis, based on the extraction of surplus labour from the class of direct producers for the benefit of the owners of the means of production. But class societies differ fundamentally in their structure. These differences are determined in the final analysis by the social mechanisms through which the extraction of surplus labour takes place. Under earlier forms of class society—such as slavery and feudalism—the extraction of surplus labour occurred through the application of political force. Under capitalism it takes place through the system of social relations based on the free market, which reaches its highest development in the wages system.

Surplus labour under capitalism takes the form of surplus value, the source of which is the difference in the value of the commodity the worker sells to capital in the wage contract—that is, his labour-power or capacity to work—and the value which the use of this labour-power creates in the production process. The value of labour-power and the value added by the worker in the production process in the course of the working day are two entirely different magnitudes. This difference is the source of surplus value, which appears on the surface of society in the form of profit, interest and rent.

But the extraction of surplus value is marked by a profound contradiction, which forms the driving force of the development of the productive forces within the capitalist economy.

The sole source of profit is the surplus value extracted from the living labour of the working class. But the rate of profit—the rate at which capital expands—is calculated on the total mass of capital employed in the production process. This capital is made up of two components: the capital laid out to purchase labour-power (variable capital)—the source of surplus value—plus the capital laid out on raw materials and machinery (constant capital) which merely preserve their value in the production process.

Inasmuch as the accumulation of capital is marked by the continuous tendency of constant capital to increase relative to variable capital—an expression of the growing productivity of labour—there is a tendency for the rate of profit to decline. In other words, as capital as a whole expands, the relative size of the surplus-value-producing component of this capital tends to decline. Consequently the rate of profit, the ratio of surplus value to the total mass of capital, tends to decline.

Marx called this law of the tendency of the rate of profit to decline, the most important law of political economy, above all from an historical point of view. This is not, as has sometimes been erroneously asserted, because it implies that the capitalist system will one day simply freeze up

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as the profit rate approaches zero, but because, on the contrary, it shows how the continuous revolutionising of the productive forces arises from contradictions inherent in the capitalist economy itself.

Capital seeks to overcome the tendency of the rate of profit to fall by developing new methods of production, based on new technologies, which enable it to increase the extraction of surplus value from the working class. The development of such methods may create conditions where the profit rate remains stationary or even increases, but inevitably the very accumulation of capital itself induces a fall in the rate of profit, thereby pushing capital towards the further revolutionising of the productive forces in order to try and overcome its effects.

The end of post-war expansion

On the basis of these theoretical considerations let us turn now to an examination of the latest phase of capitalist development bound up with the globalisation of production.

It has its origins in the re-emergence of falling profit rates from the beginning of the 1970s. For 25 years after the Second World War, the capitalist system enjoyed an unprecedented period of expansion. Many factors contributed to this: the post-war political and economic arrangements initiated by the US under the Marshall Plan, the adoption of Keynesian policies of demand stimulation by the major capitalist governments, and the provision of social welfare concessions to the working class, granted out of fear that a return to the conditions of the 1930s would have provoked vast social upheavals and revolutionary struggles in the major capitalist countries.

But in the final analysis, the post-war period rested upon the expansion of surplus value accumulation throughout the capitalist economy made possible by the extension and development of the more productive assembly-line methods of production, first initiated in the US in the 1920s and 1930s, to the rest of the advanced capitalist countries.

The very accumulation of capital made possible by these methods of production, however, inevitably led to a fall in the average rate of profit as the mass of surplus value eventually proved to be insufficient to keep expanding capital at the previous rate.

Profit figures for the US economy show this process clearly. In 1946 the rate of profit in the US was around 22 percent. In 1966 it was still 21 percent, but thereafter fell sharply, declining to 12 percent by 1974 and then to 10 percent by 1980. In other words, from 1966 to 1974 the rate of profit declined by about 45 percent after remaining relatively stationary for around two decades. Profit figures for the other major capitalist economies show a similar process.

The fall in the average rate of profit announced its arrival with the global recession of 1974-75, the most severe economic downturn since the Great Depression 40 years earlier. But the most significant indication of the fact that a new era had dawned was the fact that after the recession was over, economic conditions did not return to what they had been in the 1950s and 1960s. The failure of the average rate of profit to return to its previous levels was reflected in low growth figures and so-called stagflation—the combination of persistently high unemployment rates with high levels of inflation.

The 1970s were a decade of economic and political turmoil—stretching from the May-June events in France 1968 to the ousting of the Tory government in Britain in 1974 by the miners' strike and the revolutionary upheavals in Portugal in 1974-75. However, owing to the collaboration of the social-democratic and Stalinist parties, the bourgeoisie was able to bring the situation under control.

Having stabilised its position, it then undertook an offensive against the working class. This counter-revolution is most immediately associated with the Reagan and Thatcher governments. From the economic standpoint, the most significant event was the coming to power of Paul Volcker as the head of the US Federal Reserve Board in 1979 and the launching of a high interest rate program in the 1980s. This amounted in effect to a diktat by finance capital that new measures had to be adopted to increase the extraction of surplus value from the working class. Under the recession induced by Volcker's high interest rate regime, whole industries were shut down, and industrial capital was forced to begin a vast re-organisation of production.

This is the origin of globalised production and the development of a series of on-going transformations in production, based on computer technologies. Faced with declining profit rates, capital has responded with an unending drive to increase the productivity of labour, to expand the appropriation of surplus value from the working class, striving at the same time to introduce cost-cutting technologies and to disaggregate formerly unified production processes in order to take advantage of cheap labour in other regions of the world.

Two trends identified by Marx

In his analysis of the tendency of the rate of profit to fall, Marx pointed to two major consequences.

"If the rate of profit falls," he wrote, "there follows, on the one hand, an exertion of capital in order that the individual capitalists, through improved methods, etc., may depress the value of their individual commodity below the social average value and thereby realise an extra profit at the prevailing market-price. On the other hand, there appears swindling and a general promotion of swindling by recourse to frenzied ventures with new methods of production, new investments of capital, new adventures, all for the sake of securing a shred of extra profit which is independent of the general average and rises above it."[2]

The development of globalised production and the introduction of computer-based technologies, which have revolutionised production processes over the past two decades, is the attempt by capital to follow the *first road* indicated here by Marx. Each section of capital seeks to increase its share of the available surplus value extracted from the working class by developing new methods of production, which cut its costs to below the social average.

But the resulting increases in the productivity of labour have failed to provide the basis for a new era of expansion on the scale of the 1950s and 1960s. In the United States, for example, despite the general reduction in real wages and the upheavals that have taken place in all sections of industry, the rate of profit has only recovered about one-third of its previous decline and is still 35 to 40 percent below its post-war peak.

The question which arises is the following: Is it possible, if technological innovation proceeds sufficiently, for capital to establish a new period of expanding profits, jobs and wages, or are there inherent contradictions in the process of surplus value accumulation which mean that falling living standards are not some temporary aberration but rather a permanent feature of the capitalist economy as it enters the 21st century?

To answer this question we need to penetrate further into the process of surplus value accumulation.

Increases in the productivity of labour increase the amount of wealth produced. But for capital the significance of technology is the impact it has on the extraction of surplus value.

We have seen that surplus value originates in the difference between the value of the labour-power that the worker sells to capital in the wage contract and the value which is added by the use of this labour-power over the course of the working day.

Accordingly, the working day is itself divided—between the time taken by the worker to reproduce the value of his labour-power and the time in which he renders surplus labour to capital. The impact of technology on the accumulation of surplus labour depends in the final analysis on how it affects this division of the working day between necessary and surplus labour.

Suppose that in a working day of 8 hours the worker reproduces the value of his labour-power in 4 hours and renders 4 hours of surplus labour to capital. Now suppose that as a result of technological innovation (in

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society as a whole), the time taken by the worker to reproduce the value of his labour-power is reduced from 4 to 2 hours. Thus, in a working day of 8 hours, there will now be 6 hours of surplus labour, an increase of 50 percent.

Suppose there is a further doubling of labour productivity so that necessary labour is reduced from 2 hours to 1. Surplus labour will increase from 6 to 7 hours. But compared to the previous increase of 50 percent this is only a rise of 16 2/3 percent. We can see that for every doubling of the productivity of labour, there will be an ever-smaller proportionate increase in the surplus value extracted.

In other words, the more technology has already developed the productivity of labour, that is, the more that necessary labour has been reduced (and this takes place over the whole history of capitalism), the more difficult it becomes for new technologies, no matter how productive, to increase the rate of surplus value by an amount sufficient to restore the general rate of profit and ensure the expansion of capital as a whole.

To be sure, every capitalist firm can, and indeed is compelled by the pressure of competition, to try to maintain or increase its individual profit by introducing new cost-cutting technologies. But what is the effect of this process on the accumulation of the overall mass of surplus value?

New methods of production cut costs through the elimination of whole sections of labour. But labour is the sole source of surplus value and ultimately of profit. Hence the development of these methods tends to reduce the mass of surplus value in the capitalist economy as a whole. On the other hand, this tendency is countered to some extent by the increase in surplus value extracted from the remaining labour. Yet because necessary labour has already been reduced to a relatively small portion of the working day—the result of all the preceding developments in technology—it cannot increase by an amount sufficient to ensure the expansion of the mass of surplus value as a whole.

This is why new technologies no longer produce an expansion in the mass of surplus value as they did in the past, but bring about a stagnation or even decline, leading to ever more frenzied competition, cost-cutting and the elimination of labour, further constricting the accumulation of surplus value overall.

In laying bare these contradictions in the process of surplus value accumulation we are able to see why capital has increasingly taken the *second road* indicated by Marx—the attempt to overcome the fall in the rate of profit by financial operations, increasingly divorced from the production process itself.

The figures that mark this development are truly staggering. For example, the volume of foreign exchange trading in the late 1990s (largely devoted to the attempt to acquire profit by movements in currency valuations) has been around $1.5 trillion per day, representing an 8-fold increase since 1986. By contrast, the global volume of exports for 1997 (comprising both goods and services) was $6.6 trillion, or $25 billion per day. By the mid-1990s the amount of capital in the US in the form of mutual funds, pension funds and the like reached $20 trillion, or ten times the 1980 figure. This has been a truly global process. Cross-border transactions of bonds and equities between 1970 and 1996, measured as a percentage of GDP, rose by a factor of 54 for the US, 55 for Japan and almost 60 for Germany.

And one of the most dramatic expressions of this process—the attempt to expand capital through purely monetary manipulations and transactions—has been the rise in global stock markets. In his recent book *Irrational Exuberance*, the American writer Robert Shiller details the escalation of the US market as follows.

"The Dow Jones Industrial Average," he notes, "stood at around 3,600 in early 1994. By 1999, it had passed 11,000, more than tripling in five years, a total increase in stock market prices of over 200 percent. At the start of 2000, the Dow had passed 11,700. However, over the same period, basic economic indicators did not come close to tripling. US personal income and gross domestic product rose less than 30 percent, and almost half of this increase was due to inflation. Corporate profits rose less than 60 percent, and that from a temporary recession-depressed base." [3]

What is to account for these extraordinary developments and what are their implications for the future development of global capitalism?

It is often thought that the role of the share market is to provide new capital for investment in production. It does perform this function, but this is not its major role. Between 1981 and 1987 in the US for example, non-financial corporations actually retired $813 billion more in stock than they issued as a result of takeovers and buyback operations.

The trading of shares on the stock market has little to do with the raising of new capital. It is trading in property titles, claims upon the accumulation of future income and profits. That is, stocks and bonds are fictitious capital in that they are not productive capital directly engaged in the extraction of surplus value from the working class, but titles to income and property—claims upon the surplus value produced by other sections of capital.

The development of the credit system and the emergence of share-market capital is sometimes treated as if it were merely some kind of unnecessary, parasitical excrescence which grows on the body of an otherwise healthy capitalist system. In fact, the emergence of various forms of fictitious capital is rooted in the process of surplus value accumulation and has arisen from the historical development of the capitalist system itself.

Capital, as Marx never tired of repeating, is not a thing, but a social relation. It is self-expanding value, taking the form at various points of money, of the means of production, of commodities and once again of money to resume the circuit of value expansion.

In this never-ending process of accumulation, capital is driven to overcome all obstacles. Early on in its history, it ran up against the barriers to accumulation imposed by the limits of personal wealth and income. In order to expand beyond the limits of the family business or the limited partnership, it required access to the resources of society as a whole. The development of credit and the joint stock company were means by which this goal was achieved.

Furthermore, as capital production expanded, productive capital became more heavily concentrated. Fixed capital investments—factories, buildings, large-scale machines, vast chemical and refining processes—can only perform their function as means of production engaged in the extraction of surplus value from the working class over a long period of time. That is, the production process itself required capital to remain in this form for a long period. But at the same time capital also needed to be able to move freely, from one area of the economy to another, to take advantage of the opportunities that arose in the relentless struggle to appropriate surplus value.

This contradiction, between the needs of capitalist production for long-term investment on the one hand, and the need for rapid capital mobility on the other, was resolved through the development of stocks and shares. Capital is supplied through the issuing of shares and then put to work in the production process. The existence of the stock market enables shareholders, including those who may have supplied the initial capital, to move their capital to another area by selling their shares, their titles to income, without the actual liquidation of productive capital itself. In other words the development of the joint stock company and the share market were the historical means through which capital resolved the contradiction between the need for large quantities of fixed capital on the one hand and the necessity for capital mobility on the other.

Fictitious capital therefore arises as a means to resolve contradictions arising in the process of surplus value accumulation. But it becomes the source of new contradictions itself. The emergence of a market in titles to property, claims on surplus value, gives rise to the possibility of capital expanding its value through trading in this market.

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And that prospect becomes increasingly attractive—indeed even necessary—where there are tightening constrictions on the accumulation of surplus value by productive capital. That is, under conditions of stagnant or falling rates of profit, capital turns to ever more speculative ventures to expand itself.

Herein lie the origins of the fantastic escalation in share market values we have seen since the beginning of the 1980s, accelerating over the past five years, and the vast growth of the share market in relation to the economy as a whole.

Notes:

2. Marx, *Capital* Volume III, pp. 253-254
3. Robert Shiller, *Irrational Exuberance*, p. 4

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