A letter on the contradictions of capitalism

Nick Beams
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Dear Editor,

Thank you. Nick Beams' articles have led me to a finer appreciation of historical events, and he has certainly put the Afghanistan "war" into perspective. I am confused concerning the basis of his analysis. Any attention you might give to any one or a combination of the questions below will be greatly appreciated.

I do not understand:

1. Is it true that exploitation of workers leads to surplus, and that the increased surplus constitutes a lessening of demand? Would this be the fundamental contradiction?

2. Does over-supply force the quest for new markets, and does the acquisition of new markets explain the notion of capitalism re-creating itself?

3. If surplus is the problem, say in manufacturing, what need is there for additional raw materials and why the ravenous appetite for raw materials? Wouldn't restrictions in raw materials drive up the value of those currently available?

4. It would be nice if neat two or three-dimensional graphs existed that permitted comparisons between labour, raw materials, commodities and markets—something similar to the show-and-tell "supply and demand" curve found in basic books on economics. Do such graphic representations, written in current usage, exist?

5. I have a minimal understanding of "balance of trade," but my idea is that at pre-specified intervals, central banks exchange funds or credits to offset imbalances caused by trade. But without a firm standard, how does a Marxist measure the differentials occurring between price, costs and profits? And with one super-power, how can trade imbalances be seen to be the outgrowth of normal trade rather than a form of tribute, imposed by the dominant nation? How, then, can international applications of Marxist theory be developed?

Thanks again for your articles.

JG

Dear JG,

Your questions cover a wide range of subjects, so it is not possible to answer them all in detail. In many ways, however, the first is the most important so I will concentrate on it.

The question of whether exploitation of workers and the consequent lack of demand causes a crisis in the capitalist system arises as follows.

Workers employed by capital receive a wage equivalent to the value of the commodity they sell, their labour power, or capacity to work. Once having purchased this commodity, the capitalist, like every other purchaser of a commodity, is entitled to its use value. The use value of labour power is that it is a source of additional value, which it creates during the process of production. Suppose that the value of labour power (paid in the form of wages) is equivalent to half a day's labour. Then at the end of four hours, the worker will have reproduced the value of his labour power. But as we know, the worker does not work for four hours, but for eight hours, or a longer period. During that period, the worker creates additional or surplus value, over and above the value of the labour power he sold to the capitalist.

This value created by the worker in the course of the working day is embodied in the commodities emerging from the production process. The value of these commodities consists of two parts—the value embodied in the labour power, raw materials and machinery that went into the production process and the additional or surplus value that the worker rendered to the capitalist without payment.

The process of capitalist production consists of an endless circuit. In the beginning, capital takes the form of money. This is then laid out to purchase raw materials, machinery and labour power. At the end of the production process, capital is in the form of commodities. The value of these commodities is greater than the money at the start of the process. But this commodity-capital must be turned back into money for the process to begin again.

In order for this to take place the commodities must be sold on the market. Demand for these commodities comes from workers who have been paid wages. But here a contradiction arises: because the workers have rendered a surplus to the capitalist the amount of money they have received in wages will be less than the value embodied in the commodities held by the capitalist. This means, so it is argued, that the capitalist will not be able to realise, in the form of money, the surplus value extracted from the working class. Hence exploitation leads to lack of demand which causes a crisis for the capitalist system.

The problem with this theory, which goes under the general name of underconsumptionism, is that it explains too much. If the explanation it provides were correct, one would have to ask: how is capitalist production possible at all?

The exploitation of the working class is not a temporary but a permanent condition of capitalist production—it is inherent in the buying and selling of labour power, which is the basic social relation that marks capitalism off from all other modes of production. The proponents of underconsumptionist theories invoke a general condition as the explanation for the development of a particular crisis. But if their arguments were correct, capitalist production would collapse as soon as the first attempt was made to turn commodities back into the money form.

Underconsumption theories equate the market with purchases made by workers. But besides the consumption of workers, there is also the productive consumption of capitalists who, having previously accumulated profits, are making new investments. These capitalists are purchasing machinery, raw materials etc. as well as labour power. This investment plays the key role in creating new markets and in expanding existing ones. Capitalist production expands, so to speak, in a spiral. Profits from one period, become re-invested in the next, creating new markets, which help realise the surplus value created by other sections of capital.

The key determinant of the size of the market is not the demand from workers, based on the level of their wages, but the level of new investment by capital. And this is determined by the mass of surplus value that is extracted from the working class in relation to the mass of existing capital, measured as the average rate of profit. In other words, the faster capital can expand, the faster it can go on expanding.

However, if the rate of profit begins to fall, the level of investment will fall. This means that productive consumption will fall and demand will

start to dry up. Capitalists who have profits to invest will be reluctant to do so, fearing they will incur losses because of contracting markets. The fall in investment and the contraction of the market leads to the sacking of workers and further decline in demand and so on.

Thus it appears that the crisis is one of underconsumption—the lack of demand. But this lack of demand is the market expression of processes that have been taking place behind the scenes, in the sphere of production and are manifested in a fall in the rate of profit. The real cause of the crisis is not the lack of demand but the lack of surplus value, relative to the existing stock of capital, which leads to a decline in productive consumption (investment) and a general contraction of the market.

The question we are left with is: what causes the rate of profit to fall?

The tendency of the rate of profit to decline was identified well before Marx. But he was the first to explain its origins.

According to Adam Smith, it arose from increased competition, which drove down prices and profit rates. But as Marx elucidated, competition in the market only explained the tendency of the rate of profit to equalise both within industries and across the economy as a whole. Competition was the mechanism through which the laws of capitalist production were executed. But it was not the origin of those laws.

Ricardo held that the rate of profit fell because of declining profit rates in the sphere of agriculture, due to the increased use of less productive land. This tended to increase the cost of food and other consumption goods that formed part of the expenditure of the working class. As the price of these goods rose, so the value of labour power rose, tending to bring about a fall in the rate of profit. Thus, according to Ricardo, the fall in the rate of profit, was a reflection of the declining productivity of labour.

Marx showed, on the contrary, that the tendency of the rate of profit to fall arose from the **increase** not the decline in labour productivity. To see how this is the case we need to go a little further into the process of capitalist production.

Money capital is laid out in the form of expenditure on machinery and raw materials and labour power. But the sole source of surplus value is labour power—the value embodied in machinery and raw materials is merely transferred to the final product in the labour process. As capitalist production proceeds, smaller amounts of labour set in motion larger quantities of raw material and machinery (what Marx called constant capital). At a certain point, the surplus value extracted from the labour power employed in the production process is insufficient to keep the mass of capital growing at the same rate and the rate of profit (the ratio of the mass of surplus value to the total capital) starts to decline.

Capitalist production is characterised by the tendency for dead labour (embodied in the means of production) to rise relative to living labour. This process gives rise to the tendency of the rate of profit to fall. But this tendency is an expression of the rising productivity of labour—the capacity of living labour, having greater command over the means of production, to produce more goods in a given period of time. In other words, the tendency of the rate of profit to fall is the expression within the capitalist mode of production of the growth of the productive forces and the increased productivity of labour.

The tendency of the rate of profit to fall does not mean that profit rates have been declining since the birth of capitalism. This tendency sets in motion countervailing processes that lift the rate of profit. The most important of these are changes in production methods that increase the extraction of surplus value to such a point that it is able to lift the rate of profit and once again ensure the expansion of capital. But this further accumulation of capital leads eventually to falling profit rates, necessitating further changes in the methods of production to try to increase the extraction of surplus value.

However, there are inherent limits to this process. Every increase in the productivity of labour reduces the time taken by the worker to reproduce the value of his own labour power and increases the portion of the working day in which he renders surplus value to the capitalist. But the more productivity increases, the smaller will be the increase in surplus value resulting from changes in the production process.

A numerical example will demonstrate this. Suppose it takes the worker four hours in a working day of eight hours to reproduce the value of his labour power, rendering four hours surplus labour to the capitalist. If labour productivity is doubled, and the time taken by the worker to reproduce the value of his labour power is reduced to two hours, surplus labour will be increased to six hours—a rise of 50 percent. However, a further doubling of the productivity of labour will only produce an increase of one hour in surplus labour, an increase of just 16.6 percent and so on.

Summing up this process, Marx wrote: " ...the smaller the fractional part of the working day which forms the equivalent of the worker ... the smaller is the increase in surplus value which capital obtains from the increase of productive force. Its surplus value rises, but in an ever smaller relation to the development of the productive force. Thus the more developed capital is, the more surplus labour it has created, the more terribly it must develop the productive forces in order to realise itself in only smaller proportion, i.e. to add surplus value ..." [Marx, *The Grundrisse* p. 340]

In his famous *Preface to the Critique of Political Economy*, Marx explained that the era of social revolution begins when the relations of production—under capitalism, the system of wage labour through which surplus value is extracted—having initially developed the productive forces, turn into their fetters.

The process we have outlined above points to the development of this contradiction: the more highly developed the productive forces, the more difficult becomes the extraction of additional surplus value, giving rise to a crisis of capital accumulation.

At the same time, however, the very development of the productive forces provides the material foundations for a higher form of society based on new social relations in which production for profit, based on private ownership, is replaced by production for need, based on social ownership.

Let me turn briefly to your other questions.

Oversupply in one market does force capitalists to seek new markets, leading to the extension of the capitalist mode of production. We have seen a reflection of this in the past 20 years where the dominant sections of capital have demanded the removal of all barriers to the entry of their goods and the end of all so-called national development programs of the oppressed countries in order to penetrate these markets.

This process has also had an impact on the production of raw materials. One of the ways in which capital seeks to overcome falling profit rates is through access to cheaper raw materials. In the epoch of "classical imperialism" this was achieved through colonial acquisitions. Today, different methods are employed. Under the structural adjustment programs dictated by the IMF and the World Bank, poor countries are ordered to produce cash crops for the world market. This increases the supply and reduces the price, thereby benefiting the transnational corporations that purchase the raw materials. One of the main reasons for the growth of poverty in sub-Saharan Africa in the past 20 years has been the sharp movement of the terms of trade of the sub-Saharan countries.

As for "supply and demand," there is an old joke that any parrot can become a trained bourgeois economist simply by being taught this phrase. I am afraid the capitalist mode of production cannot be reduced to a two- or even three-dimensional graph.

I have not made an in-depth study of issues of international trade so I do not propose to venture too far here. Much of this area, however, needs a re-examination to take account of the fact that a considerable portion of "trade" is not comprised of arms-length transactions but involves the transfer of material, components and services within individual

transnational corporations.

Yours sincerely,

Nick Beams