

Marx's analysis of the laws of capital and the share market crisis

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17 February 2018

Down through the years one of the most persistent attacks on Karl Marx by the high priests of bourgeois economics—the ideological guardians of the profit system—has been his contention that, in the final analysis, capitalism depends on the impoverishment of the working class.

History, they maintain, has proven otherwise and refuted Marx. While there have been periods of crisis, and rapid and even prolonged falls in the living standards of the masses, in the long run the profit system has served to uplift them and will continue to do so into the indefinite future, whatever fluctuations it may undergo.

Moreover, there is no possible alternative because the market system is not a historically developed mode of production, which came into being at one point and is therefore destined to pass away like earlier modes of production before it, slavery and feudalism. Rather, it is rooted in the laws of nature itself and is necessary and therefore eternal. In other words, despite some imperfections, which may give rise to problems at certain points, all is really for the best in the best of all possible worlds.

In feudal times, the high priests of the Church, who played the key role in sustaining and sanctifying the ruling classes of their day, maintained that when crises arose this was not a product of the social system but an “act of God,” a punishment for the sins of man deriving from his fall.

While there have been enormous advances in social and political thought since then—a product of the Enlightenment and the vast advances in the scientific understanding—the *modus operandi* of the present day “high priests” of capitalist economy, the bourgeois economists and pundits, is not altogether different from their predecessors.

When confronted with economic crises and their persistence, they maintain that these are not a product of the inexorable workings of the capitalist system itself, but arise from “market imperfections” or some external, unforeseen or accidental event. That is, they proceed, as Marx put it, on the basis that so long as capitalism acts according to the textbooks—the modern day scriptures used to justify the present socio-economic order—crises are not endemic to the system.

The events of the past two weeks, with the largest fall in markets since the crisis of 2008, raising the spectre of an even bigger disaster than that of a decade ago, have provided a damning exposure of this entire ideological framework.

Before going into a deeper analysis of the underlying driving forces and the inherent and irresolvable contradictions of which these events are an expression, let us begin with one undeniable economic fact.

In the decade since the eruption of the global financial crisis of 2008, none of the underlying contradictions that exploded to the surface has been resolved. At the same time, the immediate and ongoing consequences of the breakdown have been the reduction of the living standards of billions of people, while creating unprecedented wealth for a capitalist oligarchy occupying the heights of society. Or as Marx put it, the accumulation of wealth at one pole, amid poverty, misery and degradation at the other.

Whatever the immediate outcome, the financial turmoil of the past days

has established, as an undeniable reality, the continuing threat of a meltdown of the capitalist economy. It hangs like a sword of Damocles over the working masses of the world, destined to fall, if not in this crisis, then in others to come.

Moreover, one of the most striking features of the latest crisis, is that it was not sparked by the immediate threat of recession but by news that economic growth was enjoying an uptick—the best period of synchronised global growth since 2009, according to the International Monetary Fund. Most significantly, it was triggered by data showing that wages in the US experienced their largest annual rise since 2009.

Most of what passed for analysis in the bourgeois media did little better than the tweet forthcoming from the very limited intelligence of US President Donald Trump. He noted: “In the ‘old days,’ when good news was reported the Stock Market would go up. Today, when good news is reported, the Stock Market goes down. Big mistake and we have so much good (great) news about the economy!”

Trump’s “analysis” omitted a central feature of the market rise over the past nine years. It has not taken place on the basis of “good news” but in a period of the lowest growth in any “recovery” in the post-World War II period. It has been sustained only by the continued inflow of ultra-cheap money from the US Federal Reserve and other major central banks.

Lawrence Summers, former treasury secretary in the Clinton administration and now Harvard professor of economics, was slightly more insightful. “This is not yet a major earthquake,” he wrote. “Whether it’s an early tremor or a random fluctuation remains to be seen. I’m nervous and will stay nervous. [It is] far from clear that good growth and stable finance are compatible.”

Summers is at least vaguely aware that in the present situation there is something deeply troubling for the capitalist class for which he speaks. The very measures undertaken in response to the last crisis, supposedly aimed at restoring economic health and growth, may in fact have created the conditions for another financial disaster as growth begins to rise.

The tendency of the rate of profit to fall

To analyse the present situation, it is necessary to leave the sphere of bourgeois economics—based on the premise that there are no inherent and objective contradictions in the profit system—and probe its historical development on the basis of the laws of motion of the capitalist economy uncovered by Marx.

The ongoing turmoil in financial markets, beginning with the Wall Street crash of October 1987, must be analysed on the basis of one of the most important contradictions of the capitalist economy explained by Marx. That is the long-term tendency of the rate of profit to fall.

This tendency was noted by the foremost representatives of English classical political economy—Adam Smith and David Ricardo—who preceded Marx in the period when the bourgeoisie was a rising and progressive class.

While Smith and Ricardo found the tendency of the rate of profit to fall deeply disturbing, especially the latter because of its implications for the

long-term future of the capitalist economy, they were unable to give any scientific explanation for it. That was provided by Marx, beginning with his uncovering of the secret of surplus value.

While Smith and Ricardo had the notion that the origin of surplus value was the labour of the developing working class, its actual source always remained a mystery to Marx's predecessors. How was it possible, they cudgelled their brains, on the basis of the laws of commodity exchange in the market, where equivalents exchange for equivalents, for a surplus to arise and for this surplus to be appropriated by capital?

Marx's solution consisted in his probing of the most important commodity exchange in capitalist economy, that between capital and labour. He showed that the commodity which the worker sold to the capitalist was not, as had been previously maintained, his or her labour, but labour power, the capacity to work.

Like every other commodity in the market, labour power's value was determined by the value of the commodities needed to reproduce it—in this case, the value of the commodities needed to sustain the individual worker and his or her family to ensure the continued supply of wage workers.

Surplus value arose from the difference between the value created by the worker in the course of the working day through the production process, and the value of the commodity, labour power, that the worker sold to capital through the wage contract.

The raw materials and machinery used up in the production process did not add new value, but passed on to the final product the value they already embodied.

Yet the analysis was not yet complete. The rate of profit had to be explained. This rate was not determined at the level of the individual capitalist firm, but at the level of the capitalist economy as a whole. It was given by the ratio of the total surplus value extracted from the working class to the total capital outlay—the expenditure on labour power plus the expenditure on the means of production, raw materials and machinery.

The tendency of the rate of profit to fall arose not from some external factor, Marx showed, but from a contradiction at the very heart of this process.

The development of capitalist production led to the expansion of the productive forces and the use of ever-larger amounts of raw materials and machinery in the production process. As a result, expenditure on materials and machinery tended to comprise an increasing proportion of the total capital laid out. But this increased expenditure on what Marx called constant capital, as opposed to the expenditure on labour power, or variable capital, did not give rise to additional or surplus value.

Because the rate of profit was determined by the ratio of total surplus value to the total mass of capital—constant and variable—employed, there was an inherent tendency for it to decline.

Now, as Marx clearly identified, there were countervailing factors. These included: the increased exploitation of the working class in order to widen the difference between the value of labour power and the value created by the worker in the course of the working day; the lowering of wages to below the value of labour power, enforced through the creation of unemployment and a surplus working population; the cheapening of the costs of raw materials and machinery, so reducing the total value of capital on which the rate of profit was calculated; and the expansion of foreign trade.

But while these countervailing factors lessened the tendency of the rate of profit to fall, and at times could operate very powerfully—even lifting the profit rate—the basic tendency continually reasserted itself.

Marx characterised the law of the tendency of the rate of profit to fall as the most important law of political economy, above all from an historical point of view. This was because, on the one hand, it drove capital to develop the productive forces in an attempt to overcome its effects, while, on the other, it was the source of the continually recurring crises that beset the capitalist mode of production.

Marx's critics and the end of the post-war boom

With the development of the post-war capitalist boom, extending from the late 1940s to the early 1970s, Marx's law, it was claimed, had been refuted by historical events. As had been seen in the case of the German revisionist Eduard Bernstein at the end of the 19th century, the attack on Marx's analysis came from those who claimed to be his followers, but insisted it needed to be revised and updated.

The assault on Marx's law of the tendency of the rate of profit to fall was at the centre of one of the most influential books of the late 1960s, *Monopoly Capital*, written by the "independent" Marxist economist Paul Sweezy in co-authorship with Paul Baran in the midst of the post-war boom.

Sweezy, the founder of the journal *Monthly Review*, had already cast considerable doubt on the validity of Marx's law in his first book, *The Theory of Capitalist Development*, published in 1941. He now maintained that Marx had developed the law under conditions of competition in the 19th century and that in 20th century monopoly capitalism it no longer applied, if it ever had.

Sweezy maintained that the key question confronting capital was not the insufficient extraction of surplus value relative to the ever-growing mass of capital—the issue to which Marx's law had pointed—but the reverse. Monopoly capital created an increased mass of surplus value that had to be continually "absorbed."

A key aspect of Sweezy's theory, flowing directly from his economic analysis, was that in the advanced capitalist countries, dominated by monopolies, the working class was no longer a revolutionary force. The vehicle for socialist revolution, he claimed, was now the masses in the so-called Third World countries, striving for national liberation.

Monopoly Capital is no longer widely read but it continues to exert an influence. David Harvey, for example, adheres to much of Sweezy's economic analysis, as well as his insistence on the non-revolutionary role of the working class.

However, as so often happens, Sweezy's "refutation" of Marx came right at the point when developments in the capitalist economy were confirming Marx's scientific insights. Earlier, Bernstein had maintained that the Marxist analysis of the inevitable breakdown of capitalism was rendered a fiction by the boom beginning in the late 1890s. The collapse of Bernstein's prognosis came just 14 years after its elaboration, with the outbreak of World War I in 1914.

In Sweezy's case, his refutation was almost instantaneous. The publication of *Monopoly Capital* in 1966 came at a point when profit rates in the advanced capitalist economies were starting to turn down. This led to mounting economic problems and the rise of class tensions that were soon to produce potentially revolutionary struggles by the working class from 1968 to 1975.

Starting with the May–June 1968 general strike in France, the largest and most extended in history, and including the 1969 hot autumn in Italy, the 1974 miners' strike that brought down the Tory government in Britain, the revolutionary situation in Chile (1970–73) and the upheavals in the US, to name just some of the events, world capitalism was shaken to its foundations.

With the direct collaboration of the Stalinist, social democratic and trade union apparatuses, which betrayed these struggles, the capitalist classes were able to bring the situation under control and maintain their rule.

However, the underlying economic problems of the US and other major capitalist economies, rooted in declining profit rates, remained. Having kept themselves in the saddle, the ruling classes undertook a massive offensive against the working class, coupled with restructuring the world economy.

The global counter-offensive was initiated in the US under Federal Reserve chairman Paul Volcker, who put in place a high-interest rate regime. Its purpose was two-fold: to wipe out unprofitable sections of

industry and force a major industrial restructure, and eliminate the large industrial complexes that were the centres of militant working class struggles in an earlier period. The Volcker purge had vast global ramifications, leading in 1982–83 to the most serious global recession since the Great Depression.

The decade of the 1980s was characterised by major class battles, of which the mass sacking of US air traffic controllers in 1981 by Reagan and the state violence unleashed by the Thatcher Tory government against the British miners' strike in 1984–85 were two of the most prominent. The decade also saw a fundamental transformation in the role of the trade unions. From organisations that had fought for limited gains by the working class, they betrayed all of its struggles as they became the chief enforcers of the program of pro-market, capitalist restructuring.

The attack on the social position of the working class—aimed at increasing the extraction of surplus value to counter the fall in the rate of profit—was accompanied by a reorganisation of production, through downsizing and globalisation to take advantage of cheaper sources of labour.

The growth of financial speculation

Crucial to this restructuring was the freeing of financial capital from the restrictions and regulations that were set in place following the disastrous experiences of the 1930s. The growing operations of finance, through the issuing of so-called junk bonds and other measures, were central to hostile takeovers, downsizing and mergers and acquisitions that transformed the organisation of capitalist production.

At the same time, the pressure on profit rates, as Marx predicted, resulted in a turn by capital to operations in the financial markets and speculative ventures as a means of profit accumulation.

This process led to financial storms by the end of the 1980s, with the eruption of the savings and loans debacle and the October 1987 share market crash, in which the Dow plunged by more than 22 percent in a single day.

The response of the incoming Federal Reserve chairman, Alan Greenspan, represented a major turning point. He committed the central bank to the provision of liquidity to the financial markets in what became known as the “Greenspan put.” In effect, the Fed became the guarantor to the financial markets, reversing previous policy.

While the October 1987 crash was the most severe one-day fall in history—a position it retains to this day—it did not lead to a broader crisis in the economy as a whole.

This was because the onslaught against the working class in the US and the first wave of globalisation, marked by the transfer of large areas of industrial production to the cheaper-labour countries of East Asia, the “Asian Tigers,” was beginning to lift the rate of profit.

This was reinforced after 1991 with the liquidation of the Soviet Union and the consequent abandonment by countries such as India of their nationally-regulated development programs and the increasing turn to the free market.

Most significant was the restoration of capitalism in China and its opening up to global corporations. China, which became a source of cheap labour production in the 1980s through the establishment of special economic zones, opened up still further. The Tiananmen Square massacre of June 1989 was the signal by the Chinese Communist Party regime that it stood ready, by whatever means necessary, to ensure the exploitation of the Chinese working class by global capital.

In the first period of the Clinton presidency, beginning in 1993, the US economy enjoyed rising profit rates as a result of the boost provided by the exploitation of cheaper labour, paid as little as one thirtieth of US wages.

However, the basic tendency identified by Marx began to reassert itself from around 1997, when the average US profit rate began to turn down. As a result, the accumulation of profits by financial means, which had

grown by leaps and bounds in the 1990s, became increasingly vulnerable.

By 1996, Greenspan pointed to what he called “irrational exuberance,” expressed in the tendency of stock prices to become ever-more divorced from the real economy. This warning, however, came to nothing. Greenspan, responding to the dictates and demands of finance capital, turned more openly to the provision of cheap money for speculation.

The Asian financial crisis of 1997–98 was a significant turning point. It produced a depression in South-East Asia equivalent in scope to that of the 1930s in the advanced capitalist countries, but Clinton dismissed it as a mere “glitch” on the road to globalisation.

That was followed by the 1998 collapse of the US investment fund Long Term Capital Management, which had to be wound up in an operation conducted by the New York Federal Reserve, lest its demise brought down the whole financial system.

The dot.com bubble was then getting under way as the Fed provided ever-cheaper money. And at the behest of the financial markets, the last remnants of the regulatory mechanisms controlling their predatory operations, put in place as a result of the 1930s depression, were scrapped with the Clinton administration's 1999 repeal of the Glass-Steagall Act.

The 2001 collapse of Enron revealed the dubious practices and outright criminality that increasingly marked the speculative financial bubble. Enron had pioneered new accounting practices in which profit was decided in advance to meet market expectations and then the accounts were manipulated to show the desired result.

Following the collapse of the tech and dot.com bubble, finance capital turned to the development of new methods for speculative profit accumulation, again facilitated with cheap money from the Fed. It developed highly complex and arcane financial derivatives, centred on the sub-prime mortgage market, but extending well beyond it. Goldman Sachs, among others, was a key player. It issued new products that it knew would eventually fail, but made money in the meantime by financing both sides of the deals.

The 2008 global financial crisis

In April 2007, the then chairman of the Fed, Ben Bernanke, dismissed the possibility that the growing signs of problems with sub-prime mortgages could impact the broader market because these products only amounted to a \$50 billion operation.

However, when the crisis erupted, it engulfed the entire financial system, threatening to bring down the insurance giant AIG following the collapse of Lehman Brothers. This was because the methods employed in the sub-prime market were not “rogue” activities but typical of the financial markets as a whole.

The response of the Fed and other central banks to the 2008 crisis marked another decisive turning point. No longer was it a question of stepping in to rescue a failed individual firm. Massive intervention was required to prop up the US and global financial system as a whole.

The lowering of interest rates to historic lows—in some cases to negative levels—and the injection of trillions of dollars into the financial system did not overcome the contradictions manifested in speculation—the expression of the laws of the capitalist mode of production laid bare by Marx—but exacerbated them.

The rise and rise of financial wealth accumulation in the decade following the 2008 crisis is not the outcome of growth in the real economy. In fact, the “recovery” since 2009 has been the weakest in the post-war period, and marked by the fall of investment in the real economy to historic lows and a decline in productivity.

After the Lehman crisis, finance capital responded to the blowing up of its previous mechanisms for profit accumulation via speculation by creating new ones. One of these, exchange traded notes based on “shorting” the volatility index, or Vix—that is, betting on continued market calm, has now resulted in the most significant turbulence since the 2008 crash.

However, these new forms of speculation are only a trigger. The broader significance of the recent volatility and whatever else eventuates—no one is sure that the storm has passed—is that it was provoked by the prospect of faster growth and a push by the working class for higher wages following decades of the suppression of the class struggle.

Economic events have once again confirmed the essential conclusion of Marx's analysis of the laws of motion of the capitalist economy. Whatever its ups and downs and even periods of long upturn, the accumulation of profit—the essential driving force of capitalism—is, in the final analysis, based on the ongoing suppression of the working class and its impoverishment.

The lie, which forms the basis of all bourgeois economics, that somehow the growth of capitalist economy can, at least in the long run, provide the road to advancement for the mass of humanity, the working class, the producers of all wealth, has been exposed. It has been laid bare by the fact that signs of economic growth and a growing movement of workers against the decline in living standards have raised the prospect of a new financial disaster, even more serious than that of a decade ago.

Marx's analysis of the laws of motion of capital—laws which express themselves, as he put it, in the same way that the law of gravity asserts itself when a house collapses around our ears—far from being refuted or rendered outdated, has been confirmed by living events.

This analysis, and Marx's central conclusion that the working class has to take conscious control of the very wealth it has produced, must become its guiding perspective in the struggles now unfolding.

This historic task does not arise out of an abstract theoretical construct. In opposition to all the nostrums of bourgeois economy, which are self-serving justifications of the capitalist system, Marx's analysis is a scientific elaboration of the objective tendencies and inherent logic of capitalist development.

This logic, which assumes ever-more explosive forms, now poses directly before the international working class the necessity, if humanity is to avert a catastrophe and advance, to fight in every struggle for a perspective based on the overthrow of the reactionary and historically-outmoded profit system. That is the essential meaning of the latest round of turmoil on the financial markets.



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