The political economy of capitalist debt

Nick Beams
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In response to an article last week on the contraction of the US economy and the seemingly endless supply of money being made available to the corporations and Wall Street, a reader raised an important question in the Disqus comment section.

"Could someone please explain," the correspondent asked, "what the writers mean when they say the money will 'one way or another, be extracted from the working class?'

"I can understand how debt equals austerity in countries like Greece or Spain, but I don't really see how this works in America. Isn't the US trillions of dollars in debt anyway? And if so, what difference do the extra trillions of debt make?

"Is it the case that the trillions allocated to Wall St this month is money directly taken from social programs, or is it more opaque than that?"

The reference to the situation in Greece and Spain, contrasting it with that in the US, is based on views expressed by many economic pundits and commentators. They maintain that because the dollar is the pre-eminent global currency, financial authorities and the government can go on expanding the money supply indefinitely and the US is somehow exempt from the laws operating in the rest of the global economy.

The aim of this response to the question is to show that this is not the case, and to raise two key issues that arise directly from the crisis.

The first is that the American working class, far from being exempt, is already being confronted with a further massive frontal attack on its living standards, jobs and working conditions, and even life itself, on top of those that have already taken place over the past several decades. And, moreover, that it will be faced, in the course of a ferocious battle to defend itself, with the necessity to undertake a struggle to take political power into its own hands.

The second is that the process of adding trillions of dollars of digitally created money to the already existing mountain of fictitious capital contains within it the rapidly germinating seeds of an economic and financial crisis going far beyond anything experienced so far.

As a number of respondents correctly noted in Disqus, the answers to the questions raised by the reader turn on the Marxist analysis of value. Let us examine this question.

The circuit of capital in its most basic form is money-commodity-money. The aim and driving force of the capitalist mode of production is the laying out of money to purchase commodities and then the selling of commodities to return a greater amount of money at the end, whereupon the process immediately resumes, so that the additional amount of money so obtained accumulates still further.

In this endless circuit, money is not, as depicted by bourgeois economists, simply a technical device somehow invented to secure the process of exchange. It is the material representative of something else, value.

That value is derived from the amount of socially necessary labour, at a given stage in the development of the productive forces, required to produce the particular commodity. That is, the process of M–C–M'—the laying out of an initial mass of money, the purchase of commodities, and the securing of a greater mass of money M'—is ultimately the accumulation of value.

The key question is where does this additional value come from? It was answered by Karl Marx. He solved the problem that had bedevilled his classical predecessors (particularly Adam Smith and David Ricardo) in the sphere of political economy. How was it possible in a market society, where equivalents exchanged for equivalents, for a surplus to accumulate in the hands of the capitalist class?

Marx drew out that, contrary to the previous conception, the worker did not sell his or her labour to the capitalist. Rather, the worker sold his or her labour power—not labour, but the capacity to labour.

The value of this commodity was determined by the value of the commodities needed to sustain the worker and his or her family, thereby producing the next generation of wage workers.

Having purchased the commodity labour power, the capitalist was then entitled to consume it, and, like every other purchaser of a commodity, to enjoy the fruits of that consumption. The consumption of the commodity labour power took place in production. In the work process, the labourer created more value than was embodied in the commodity he or she had sold to the capitalist—that commodity being labour power.

The value of the commodities that comprised the value of the commodity labour power sold to the capitalist embodied, say, four hours of labour, but the worker worked for eight, 10 or 12 hours—and this was the origin of surplus value.

That is, labour power was an exceptional or peculiar commodity, in that its consumption was the source of additional, or surplus, value, and that this process took place not in contravention of the laws of market exchange, but in accordance with them.

Surplus value was accumulated not because the individual worker was cheated—Marx assumes that the worker is paid the full value of his or her labour power—but through a system of social relations in which equivalence gives rise to massive inequality—the accumulation of wealth at one pole and poverty at the other, even as material resources expand.

The epoch-making character of Marx's discovery was set out by his life-long collaborator Frederick Engels in his work *Anti-Duhring*.

There Engels explained that socialism before Marx had criticised the capitalist mode of production and denounced its consequences. But it could not master them and could only reject them as bad.

Marx, however, showed both the necessity for the development of capitalism at a given period—its development of the productive forces of society—and the necessity for its downfall. And he laid bare its essential character.

Engels wrote that with these two discoveries—the materialist conception of history and the secret of capitalist production—"socialism became a science." He added, "The next thing was to work out all its details."

One of the details of most concern in the present period is the role of finance, or fictitious capital, which has developed over the past 150 years since the publication of *Das Kapital*, developments of which Marx was well aware, but had only just started to emerge in his day.

Giant enterprises are not funded by individual entrepreneurs, relying on their own accumulated savings or those of their family. The scale of capitalist production has gone far beyond this. They depend on the mobilisation of the resources of society as a whole, via the stock market and credit issued by the banks.

The mythology of the individual capitalist, battling to advance against great odds, taking risks, etc., is maintained for political and ideological reasons as the justification for the **private** accumulation of profit from what is essentially a **social** process.

The rise of finance led to the emergence of a new economic category, fictitious capital.

If money is raised, either through the issuing of shares or through a bank loan, and that money is used to purchase machinery, raw materials and labour power to initiate production and the extraction of surplus value, then we have productive capital, that is, capital that extracts surplus value.

But the same capital also exists in another form—as shares or debt obligations. However, it is not productive, but fictitious capital. It is not engaged in the extraction of surplus value. It is rather a claim on the surplus value extracted from the working class by capital in its productive form.

This process had only begun in Marx's day, but he had some insightful comments to make on it that have lost none of their relevance. The development of joint stock companies, he wrote, "reproduces a new financial aristocracy, a new kind of parasite in the guise of company promoters, speculators and merely nominal directors; an entire system of swindling and cheating with respect to the promotion of companies, issue of shares and share dealings."

This process, he continued, swept away all the ideological justifications for the capitalist mode of production. "What the speculating trader risks is social property, not his own. Equally absurd is the saying that the origin of capital is saving, since what the speculator demands is precisely that *others* should save for him… The other saying about abstention is diametrically refuted by his luxury, which becomes a means of credit. Conceptions that still had a certain amount of meaning at a less developed state of capitalist production now become completely meaningless" [Karl Marx, *Capital* Volume 3, p 369, 370 Penguin, 1991].

The mass of surplus value extracted from the working class constitutes a pool that is apportioned among the various sections of productive capital and the claims of the holders of fictitious capital.

Of course, great wealth can be made from the trade in shares on the stock market and in the array of arcane mechanisms in financial markets for trading in debt that have developed in the recent period.

But the fact that profit can be made from these trades does not mean these various financial assets in and of themselves embody value. They remain, in the final analysis, claims on value—a fact that is revealed when a firm or enterprise goes bankrupt and the market prices of all financial assets based on it collapse and the claimants move in to obtain what they can from the carcass.

These financial assets and their associated mechanisms have expanded to an enormous degree over the past four decades in a process emanating from the ever growing divorce of the accumulation of wealth from the actual process of production.

The roots of this separation can be seen in the basic schema of capitalist production: M–C–M'. That is, in money as the starting and finishing point of the process as a whole.

Whatever the phrases used by bourgeois politicians about how bailouts and handouts are needed to "save the economy," capitalist production is never about the production of material goods and services to meet the needs of society. This is but a means to an end, and capital, as Marx drew out, regards the actual production process—the creation of material wealth—as an inconvenient "middle term" from which it continually strives to free itself, in order to proceed directly from money to still more money.

This is not, it should be noted, a product of individual and insatiable greed, though that exists in abundance, but is rooted in the objective logic of capitalist social and economic relations.

Doing away with the "middle term" accelerated from the 1980s onwards. The downturn in the rate of profit that brought an end to the post-war capitalist boom—a boom based on steady or rising profit rates and a consequent expansion of industry—led to the rise of financialisation and the accumulation of wealth through speculation and parasitism.

New and ever more fantastic forms of fictitious capital were created, including arcane financial derivatives such as credit default swaps and collateralised loans obligations. Algorithms were developed to facilitate rapid computerised trading, so that speculators could instantaneously take advantage of slight variations in markets to reap a profit. Everything became the subject of speculation, from home mortgages to credit card and student debt, the credit worthiness of companies, the volatility of the stock market, interest rates and currency movements.

Profits were increasingly reaped not by the development of production, but through gambling and speculation in this giant casino, and when one financial bubble burst, the US Fed was on hand to pump in more money to create the next one.

This led to the crash of 2008. The Fed and its global counterparts, however, responded by making still more money available, via ultra-low interest rates and quantitative easing, creating a further mountain of fictitious capital that was threatening to collapse even before the coronavirus struck.

Indeed, it can be said that the pandemic has played a useful role for capital, in that it has provided the rationale for the Fed and other major central banks to carry out a rescue operation they would have had to undertake anyway.

In response to the threatened market meltdown that emerged in the middle of March, still more trillions have been poured into the financial system.

But no matter how much it seems that "value" can simply be created out of thin air, this gargantuan mass of fictitious capital ultimately rests on the surplus value obtained from the exploitation of the working class. Its claims can be met only if the available pool of surplus value is increased.

Herein lies the objective material source of the drive by all capitalist governments, whatever their political colouration, for a return to work, whatever the health dangers posed to workers.

Surplus value extraction must be resumed, and resumed at an even more ferocious rate than in the past. This is why so-called "emergency" measures introduced in the present crisis, which scrap previous wages and conditions, will be made permanent, just as were the new measures—such as the two-tier wages system, zero hour contracts and the development of the so-called gig economy—made permanent after the 2008 crisis.

The fictitious capital vampire created by the Fed and other central banks, as well as the deficits incurred by governments to finance the corporations and banks, must have fresh blood in the form of surplus value pumped into its arteries.

But this blood is to be supplied not only though the immediate intensification of the exploitation of the working class. Vital social services such as health, education, pensions, etc. are a drain on the pool of surplus value available for appropriation by fictitious capital, and this diversion of surplus value must be halted. Here it is not a matter of predicting what will take place, but of studying what has already happened.

In the immediate aftermath of the 2008 crisis, major capitalist government pledged to provide a budget stimulus. Little more than a year on, at a G20 meeting in June 2010, that policy was reversed and austerity measures were implemented, resulting, among other things, in the disastrous cuts to health services exposed by the current pandemic.

The Disqus correspondent raises the question of what difference the addition of still more trillions of dollars will make to the US deficit, given that debt levels are already significantly elevated.

In dealing with this issue, it should first of all be noted that even before the pandemic, there were concerns about the levels of US public debt and its sustainability. The further accumulation of debt is not a mere quantitative increase, but is more in the nature of a qualitative leap.

It has been estimated that America's public debt to GDP ratio this year will be 99 percent, up from 79 percent last year, and will increase to 108 percent in 2023, beating the previous record set in World War II.

One of the key issues is what effect this will have on the global financial system, under conditions where the US dollar is the basis of the international monetary system.

According to the economic historian Adam Tooze, it can continue to function so long as the dollar is made available to other central banks in order to prevent a collapse in the global credit system.

Tooze published a book titled *Crashed* on the tenth anniversary of the 2008 meltdown, in which he pointed to the major role played by the Fed in providing dollar swaps to other central banks, which prevented a total freeze-up of the credit system. He therefore welcomed the extension of this program in the middle of March, when the US stock market was plunging.

In an article published in the *New York Times* on March 20, he said it was "good news" and that the Fed was taking its international responsibility seriously. The article was even headlined "This Is the One Thing That Might Save the World From Financial Collapse."

In the course of his article, Tooze delved into the question of value.

"The American economy itself may look weak," he wrote, "but the dollar is still the most universally acceptable means of payment and store of value."

But how these dollars, digitally created through the press of a computer button, could be a "store of value" he did not explain. Moreover, his argument was essentially circular. It went as follows: The dollar is the most universally acceptable means of payment because it is a store of value, and it is a store of value because it is the most universally acceptable means of payment.

Tooze, who describes himself as a "left-liberal" historian, is well aware, from his study of the 2008 crisis, of the implications of the massive increase in debt.

In an article published in the *Guardian* on April 27, he writes that there will be a "towering pile of IOUs" arising from the crisis, and the question of its repayment "will decide the complexion of our politics for years to come." He warns that unless this issue is tackled, "coronavirus debts will be a battering ram for a new campaign of austerity."

He rightly concludes, after pointing to the austerity agenda initiated after 2010, that the politics of debt repayment is not a national question, but one of class: who is going to pay?

But his conclusion is that it is possible to avoid a head-on conflict by having the central bank purchase the debt issued by governments, and that a political campaign should be waged with the goal of "ensuring that the central banks continue their crisis-fighting methods into the recovery period."

This is aimed at trying to ensure that the mass of the population is prevented from grasping the real significance of the ongoing disintegration of the capitalist system that it now confronts. The masses are to be trapped within a series of illusions that a head-on confrontation can be averted, if only the Fed, along with the European Central Bank and the Bank of England, continue to pump in more money.

The politics of such a program, whether the "left-liberal" Tooze cares to recognise it or not, is to give the ruling classes more time to prepare their offensive against the working class, which they recognise as inevitable.

The infusion of digital money cannot be continued ad infinitum because at some point, sooner rather than later, it will undermine the entire financial system, warnings of which are already being made.

An article in the *Australian Financial Review* of April 27, for example, reports on warnings made by Paul Singer, the head of the $60 billion hedge fund Elliott Management. In his latest letter to investors, Singer wrote that while "emergency monetary policy" may be the correct move today, it would not be in two years' time.

Ten years ago, policymakers resorted to "monetary extremism" and accelerated it even after the emergency had passed, he wrote. The result was not hyperinflation. But this prospect, which he defined as "a rejection of fake money and fake-knowledgeable central bankers, is possibly lurking just out of sight."

He warned that quantitative easing and negative interest rates were unsound "because they rely for their magical-seeming efficiency on naïve faith by citizens, investors and businesses that paper money is trustworthy no matter how much of it is whisked into being, and no matter what the return… from holding claims on it."

The world, he said, had "moved closer to a tipping point after which money printing, prices and the growth of debt are in an upward spiral that monetary authorities realise cannot be broken except at the cost of a deep recession and credit collapse."

The shape of what is to come in a period of what could be called "debt politics" can be discerned by examining what took place after World War 1 and World War II—the two previous periods in which debt was at the levels now being reached.

The debt incurred in fighting World War II was able to be run down over time above all because the world capitalist economy, after three decades of carnage, entered an upswing. This was primarily because of the extension of the more productive methods of American industry to the other major economies, ensuring a rise in the rate of profit and an increase in economic growth.

It was an entirely different situation following World War I. The global economy had already entered a long downswing before the war erupted—in many ways, as Leon Trotsky noted on many occasions, the war itself was rooted in that development—and the working class emerged from it to be plunged into a series of conflicts in which the task of taking political power was directly posed.

That task was not accomplished because the working class did not have at its head a revolutionary party of the calibre of the Bolshevik Party that led the Russian working class to power in the revolution of October 1917. The consequence of those defeats was two decades of unemployment, Depression, fascism and then war.

Any attempt to draw a comparison with the debt reduction following World War II is completely bogus. There is no American economy standing ready to provide a boost to the global capitalist system. US capitalism is the most egregious expression of the rot and decay of the system as a whole.

The world economy has entered a breakdown, triggered, but not fundamentally caused, by the pandemic, under conditions of a protracted downswing—a period that had already been characterised long before the coronavirus had arrived on the scene as one of secular stagnation.

This is what is determining the political economy of the period that has now opened up. The working class can meet this new situation only by drawing the lessons of the past, and, basing itself upon them, undertake the building of the revolutionary party to lead the fight for political power in order to begin the task of reconstructing the world economy on socialist foundations.