

Political Economy and the End of Capitalism

Hillel Ticktin

The article argues that Marxist political economy needs to reshape itself in order to cast off the remnants of Stalinist influence. In particular, it needs to develop a viable theory of the reasons for the instability of modern capitalism. In order to do so it needs to marry the theory of capitalist decline with classical Marxist theory of crisis.

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Introduction

In the first article,¹ I argued that Marxist political economy had been largely shaped by a combination of Stalinism and Keynesianism, over the last 80 years. This was true in two ways. In the first instance, most theorists who were confronted by the overwhelming dominance of Stalinist interpretations of Marxism, supplemented by the weight of the Keynesian economic orthodoxy, adapted to those ideas to the point where they were unable to produce an authentic Marxist interpretation of the modern world. In the second place, the very existence of the Soviet Union was crucial to modern political economy and any theory had to take account of its role, but very few incorporated it into their theory of contemporary capitalism. The few who did, such as those who called the USSR state capitalist, had a very poor understanding of the USSR and effectively worked backward from the slogan, in order to justify it. Most preferred to treat the USSR as a separate entity isolated from the world. Social democracy and its Keynesian ideology continued to have influence over the left down to the present and the reality of social democratic welfare states drew in many who found jobs or niches within its structures, which they often then defended.

Even those who were anti-Stalinist tended to be moulded by the prevailing climate of opinion. The moulding was of two kinds. Many simply adapted to Stalinism and social democracy but others repeated a pristine Marxism in a more or less dogmatic

¹ H. Ticktin, 'A Critical Assessment of the Major Marxist Theories of the Political Economy of Modern Capitalism', *Critique*, 34:3 (2006), pp. 269–292.

fashion. To explain the continued existence of capitalism, which appeared, superficially, to be flourishing, they fixed on one aspect of Marxist theory as crucial for the whole system and then found reasons why it could not operate as expected. The failure of the major left currents to understand the unviability of the USSR meant that they could not predict its failure and overthrow, something any Marxist ought to have been able to do. Between their failure, therefore, to predict the future for Stalinism and their inability to understand the progress of capitalism, Marxist political economists became discredited. As orthodox economists were in an even worse position in respect of both the USSR and capitalism, the field of political economy remained open to Marxists in order to recuperate.

Not unsurprisingly, the main questions posed by Marxist political economy remain unresolved in the present context. What follows is a very limited extension of the last article.

Is Marx correct when he argued that capitalism would be rent by the contradiction between the ever more socialised means of production and the ever narrower band of appropriators of surplus value? Does capitalism have a limit? The logic of Marx's analysis says that, as capitalism develops, socialisation overtakes value, institutionalises the capitalist class, whose units of control become both bigger in value terms and smaller in number, while the population as a whole becomes increasingly proletarianised. The classes become increasingly polarised both in wealth/income and in relation to the surplus product.

Value goes into decline and with it capitalism itself. The process of decline does not, in itself lead to an immediate end to the system as capitalism can only cease when the working class overthrows it, but decline is a necessary condition for an end to the system. This would seem an obvious argument but it is not the dominant view. I am arguing that without a theory of decline, the concept of a transitional epoch, and an understanding of the particular role of Stalinism and the Cold War, Marxist political economy cannot develop. Such political economic schools as exist, like some of the examples quoted in the previous article, can only be called Marxist with a pinch of salt because they provide no basis for an evolution to socialism. Of course, there is almost an infinite variety of more specialised Marxist thought, but that is another matter.

Schools of Thought

In my previous article, I argued that there is in fact very little in the way of contemporary Marxist theorisation on the end of capitalism. Marxists today belong to one of three schools: the first argues that discontent with the potential of capitalism, compared with its reality, will cause it to be overthrown. The second holds a dogmatic view that capitalism has its own barriers either of the Stalinist type—of progressive immiseration and crises—or of the decline of the rate of profit, and the third sees capitalism as unstable, for different reasons, leading to its possible demise. Some argue that there will be a crisis, like that of 1929–1933, which will shake up the

system, others argue that the first world is supported by profits from the third world and when the latter rebels, the system will crash.

Many simply argue in terms of the need for the working class to change the society, while neglecting the reasons for such an overthrow. In other words, there is dichotomy between the objective and the subjective. Because there is such a wide gap, there are very few theorists arguing that capitalism will be overthrown/removed/replaced on the basis of objective conditions requiring such a change.

Increasingly, the three views outlined above have been reduced to two positions. The first argues that capitalism is inhuman, oppressive and exploitative but able to find ways of containing discontent and re-inventing itself. Logically, political economic theories of this kind have an essentially ethical prescription and depend on altering the consciousness of the working class in order to persuade them to act. The second avers that there will be some kind of crisis which will alter the perception of the working class and force it to act. There are variations on both viewpoints and some who have a hybrid of the two but this is the basic dichotomy as Marxist thought has evolved.

It is clearly true that capitalism has survived, the forces of production have developed to a considerable degree and the standard of living of much of the world has risen since the Second World War. This leads to a further division among Marxists in explaining the relative and unexpected success of capitalism since the war.

The logic of arguments based on crises, disequilibrium or instability must lead to the view that capitalism has found mechanisms of stability, given the continued existence of capitalism. Empirically it is clear that capitalism has been able to find many partial mediations, like segmenting, fracturing or dividing the workforce, using concessions like the welfare state or supporting repressive authoritarian governments, but all of these forms rely on a crucial wider stabilisation. Thus far we know only of Imperialism, World War, and the Cold War plus Stalinism as 'fundamental' means of stabilising the capitalist system, as opposed to the many much more limited forms.

The post-Soviet Stalinist argument maintains that the working class has suffered a catastrophic defeat, allowing capitalism to survive for some time. Mandel argued that there was a new technological revolution which allowed capitalism to partially overcome its contradictions.²

In the previous issue of *Critique* I argued that the various forms of working-class division, the new technology, the growth of consumption, the welfare state, etc. were all important in the post-war period but relied on a more fundamental mode of stabilisation, which allowed ways of mediating the poles of the contradictions in capitalism. In what follows, I will argue this case, based on the view that the Stalinism was fundamental in stabilising capitalism both directly through the Cold War and through Stalinist parties preventing any change. Second, I will argue that it was the decline of capitalism itself which needed Stalinism to play that role.

² E. Mandel, *Late Capitalism* (NLB, 1975), pp. 184–222.

The Question of Decline and the End of Capitalism

It was Lenin who put decline directly on the Marxist theoretical agenda. In so doing he did not argue the later Stalinist case of the law of increasing misery forcing the working class to act. Nor did he support a declining rate of profit argument. Lenin's re-definition of the three concepts of finance capital, monopoly capital and imperialism as the core of decline in capitalism, provided the basis of his and later Marxist arguments on the historically limited future for capitalism. Lenin did not in fact theorise the overall argument but instead provided a mechanism of understanding the need for imperialism, arguing that monopoly led to finance capital and so the export of capital and hence imperialism. In other words, the law of value is limited with the rise of monopoly, and turns to its money form—but in a higher stage—finance capital.

Lenin was right that imperialism played a crucial role in stabilising capital before the First World War. The stabilisation was limited, however, and it led to a world war and revolutions, followed by a world depression. Stalinism was another matter. It attracted the cream of the would be revolutionaries and neutralised them. It did it by directing them into futile or meaningless ventures but it also did it by so debasing Marxism that it ceased to be a revolutionary doctrine. It helped to turn the trade union movements into bureaucratic entities acting as little more than more humane forms of personnel departments. Above all, the horrific example of the Soviet Union itself, where the old revolutionaries were given show trials and millions purged in the name of Marxism, made many intellectuals and workers give up hope for any real change for a very long time. The real economic inefficiency of the USSR, its unplanned nature, the rule of the elite over the workers were all visible, even if many did not understand it. It was enough that those who escaped from Eastern Europe showed their hatred of the Stalinist regimes. The ideology of anti-communism was based on a reality and prevailed—as a result.

On the basis of that support, the ruling class in the West could mount a Cold War with apparent justification, even though there was never any real threat that the USSR would invade Western Europe or drop atomic bombs. In turn, the threat of total global war, spiced up with real wars, allowed the massive diversion of resources into the military sector, which, in principle, could never be satisfied. The military sector was not governed by value but by need, and as with other needs based sectors such as education and health, there appeared to be no limit to its demands. At the same time, the ruling class accepted the need to introduce a welfare state in order to avoid more radical demands. The result was that they married the warfare state with the welfare state and accepted the goal of full employment. As a form of stabilisation it could not have been more efficient. The economy was controlled or organised so that it avoided both underconsumption and disproportionality between economic sectors. With the working-class controlled, the rate of profit could be maintained.

As a form of capitalist stabilisation it was and remains unsurpassable. Remnants of that form continue to this day. The Chinese Communist Party is, for instance, able to

control its workforce in a way that no capitalist government, including a Fascist one, would be able to. As a result, the low costs of production of the commodities imported into the USA and Europe allow real wages to rise, and profits to increase. The Chinese economy is also playing a crucial role in the world economy in absorbing part of the surplus of capital and at the same time supporting the USA government bonds. The particular role of the Chinese government is partly one of its unique repression of the working class and peasantry but also one of subsidizing the foreign firms investing in China, based on its particular control over the economy.

The essential point is that we cannot understand modern capitalism simply in terms of the different aspects of a classical crisis. We have to interrelate the changing nature of the ruling class with the historically transitional forms which have come into existence. Simply calling them all capitalist makes any analysis opaque.

Conversely, the stabilisation was limited by two features. First, Stalinism could not last because the contradictions of the USSR were ultimately mediated by the absorption of surplus labour, which had come to an end in the 1970s. In the second place, as Stalinism lost its grip, and social democracy was exposed, workers, students and intellectuals rebelled.

The ruling class took the obvious solution. It returned to finance capital as a mode of control, with the consequence that mass unemployment became normal and governments struggled to control deficits. The welfare state was cut as an automatic response to the control by money rather than by a species of rationing. Industrial growth declined in the developed countries.

Here, it should be noted that the switch back to finance capital from industrial growth, represented also a move away from governmental control and regulation of the economy. Although the process of privatisation appeared as an empirical response, often to political needs, it was a logical move once the decision had been made to return to the dominance of finance capital.

Looked at from the perspective of a declining capitalism we are looking at an attempt by the capitalist class to maintain its dominance in the face of serious challenges. First it goes for 'planning' the economy, which is seen as conflicting with private enterprise, and then it returns to the parasitic form of finance capital, leading to de-industrialisation, polarisation of incomes, downturns and the threat of serious depressions.

Both solutions constitute direct threats to capital itself. The first was always seen as squeezing out capital from the economy but accepted as the least worst alternative in the circumstances. The second, that of finance capital, was embraced by the capitalist class knowing all the risks. Industrial capital was antagonised and subordinated in the UK and the USA, though not in Germany and France, which have continued to be largely industrial economies, though subordinated on a world-wide scale.

Finance capital has led to mass unemployment in the developed countries, usually hidden under various headings in the statistics. It is in the nature of finance capital to demand ever higher returns for its investments. Shares have to go up in price beyond the rate of inflation, which implies that profits have gone up. That in turn forces the

individual firms to compel workers to work more diligently, reduce the cost of their work conditions and fire a percentage of the workforce. At the same time, the capital so obtained necessarily finds fewer outlets for investment, and so gambles on the derivatives market, and on more risky ventures in the third world and in the developed countries.

Decline, Stalinism and Transition

The amazing level of trickery and deceit now involved with finance capital, only a small portion of which was revealed at the Enron and other trials, is part of a contemporary change in capital and in finance capital itself. Finance capital is necessarily short-termist, but contemporary finance capital has shortened its time horizons compared with the earlier period of finance capital down to the Second World War. It is also more blatant in charging huge fees and awarding its personnel enormous salaries. The numbers now employed in finance capital have given it a demographic weight in the working class of particular countries like that of the UK, as well as a considerable bureaucracy. As its activity is unproductive, in Marxist terms, and as it extracts its money from the productive sector, it is parasitic on the economy as a whole. It is, however, dominant in the world economy and its ideas and practices are therefore widespread. Its dominance forces industry to follow its lead and adopt its practices, most particularly its short-termism but also its demands for ever higher profits. The Jack Welch³ school of management, where workers are judged each year, and the bottom 10 per cent are dismissed, is essentially short-termist in that it antagonises the workforce and can only get formal compliance and real hatred.

A capitalism in which sections of the capitalist class are in implicit and explicit warfare with each other, where they cannot trust one another and where the least trustworthy are likely to end up in control of major sections of capital is a capitalism in decline. The retreat from industry is itself an indication of the need to control the working class and so the economy at one remove from the productive sector. While it may be a tribute to the forces behind the tendency of the rate of profit to fall, that cannot be directly proven. Furthermore, as indicated, finance capital has produced anger in the workforce, formal but not real compliance with instructions, highly risky levels of speculation, and a highly polarised workforce with huge differences in income. These were all predictable consequences of the switch to finance capital based on experience but a declining capitalism has no choice.

In short, the nature of capital's progression today is determined by the kind of choices that a declining system must face. Finance capital is discussed again below. What role does crisis play in a capitalism in decline.

³ Jack Welch was the former head of the US firm, General Electric, who divided the workforce into three groups, the top to be promoted and the bottom to be dismissed.

Crises

What then is a crisis? Every capitalist crisis, as opposed to a cyclical movement, is a crisis of social relations. It involves all variables of the capitalist economy, the rate of profit, disproportionality and underconsumption and hence the reserve army of labour and the organic composition of capital. Without providing a description of the process of movement of value in crisis, the argument is that as each variable turns negative for the capitalist class it turns to a solution which worsens its position in relation to another, until it runs out of options. At that point, the crisis would break out but for a time it can solve the problem by using instruments of credit. Such a process can last some time but at some point the bubble is pricked. The real crisis which then breaks out can only be solved if the working class is defeated, wages lowered and the reserve army of labour replenished. It then turns into a straight struggle between the classes. No such crisis has happened since the Great Depression, precisely for the reasons discussed above. However, with the end of the Cold War and Stalinism dying, we are in a new period.

Crises have usually been analysed as having a dynamic of three aspects, all of which play a role in the crisis itself, even if one is regarded as primary by this or that theorist. Lenin placed stress on the disproportionality between the two departments of producer goods and consumer goods and therefore held that it was the anarchy of capitalist production which led to crises. Luxemburg based her viewpoint on underconsumption which had been temporarily mediated by imperialism. Subsequent to these Marxist theorists, some argued for the concept of a secular decline in the rate of profit. I shall examine each in turn in the light of the above.

The Question of the Declining Rate of Profit

The decline in the rate of profit is an automatic consequence of the labour theory of value, assuming technological progress, but it is a permanent and long-term effect on the capitalist system such that it can seldom be pinpointed as the cause of change in itself.

It is clear that with less value produced, as a result of technological progress, and more capital, the rate of profit must decline. This leads to a kind of absolutist ending of capitalism, even though such exponents usually introduce caveats and counter-acting factors.⁴ It is noteworthy that Lenin, Trotsky and Luxemburg either ignored the concept or rejected it as a cause of change. Simon Clarke rightly points out that the stress on the question of the rate of profit as a cause of crisis in the last 30 years is novel.⁵

⁴ P. Mattick, *Marx and Keynes* (London: Merlin Press, 1969), pp. 60ff. probably argues the most sophisticated case.

⁵ 'Until the 1970s it had always been axiomatic in the Marxist tradition that a fall in the rate of profit could be a symptom or a consequence but could never be a cause of crisis.' S. Clarke, 'Capitalist Competition and Overproduction: Comments on Brenner's Uneven Development and the Long Downturn', *Historical Materialism* 4 (1999), p. 62.

The essential flaw in any falling rate of profit argument for the end of capitalism is that it is wrong methodologically in two ways. In the first place, Marxist theory always requires an interaction of class struggle and movement of categories. In this instance, some versions of the theory have only categorical movement or at the very least a decline in the rate of profit impelling workers to act. There is, however, no reason why a decline in the rate of profit should lead to workers becoming more politically consciousness or why a visible decline in the rate of profit should correspond with the real decline in value produced.

There is, however, a more profound reason why the argument is methodologically dubious. The very concept of empirically acting counteracting factors rather than an organic evolution of a law is foreign to Marx's method but that is the way it is normally explained, following the third volume of *Capital*, as published. We know, however, that the term counteracting factors was introduced by Engels when he was editing Marx's work. The point is that the rise in productivity which induces the investment in the first place is not an accidental counteracting factor but part of the process whereby fewer workers produce more use-values. The ways in which the rate of profit might then be maintained or raised, after the increase in capital are both short term and long term.

To understand the last statements we could conceive of a system where little value is produced, because machines make machines and services are largely mechanised but the goods produced are assigned arbitrarily high prices which allows the capitalist class to assign asset prices and maintain its wealth. This would only be possible if competition was very limited, and the population was atomised and fetishised. I would argue that, although a full blown version of such a society is unsustainable, aspects already exist and more are coming into existence.

The decline in the rate of profit should rather be understood as a tendency existing in the essence of the political economy of the society. The so-called counteracting factors have then to be seen as an integral part of the law. The two 'factors' of rises in productivity and depression of the price of labour power are crucial. In principle it is the rise in productivity which leads to greater production of commodities with use-values which have less value, which in turn permits a depression in the price of labour, even if the standard of living goes up. Under conditions of limited competition, which is what prevails, prices need not fall to values, and hence the effect of such a decline in value is dependent on the movements in the economy. With a militant working class, the depression of the value of labour-power may be avoided and the cost to the capitalist class passed on to suppliers and so ultimately to the competitive sector if it exists. If it does not, wages may be reduced in more subtle ways, as through a reduction in pensions, or health and social services provision. Alternatively, the cost may be borne, in part, by workers in other countries who supply the necessary imports or consumer goods. If workers are largely controlled, then the standard of living might be static or slowly rising, depending on the nature of the rise in productivity and the vagaries of the class struggle.

It can then be argued that it is a long drawn out process, in which individual units in the capitalist class have effectively succeeded in overcoming the profits barrier by assigning arbitrary prices, whenever they can get away with it. The effect is to make the decline in the rate of profit an unseen and hard to pin-point part of the crisis of capitalism itself. It is not just the competitive sector, indigenous and foreign workers that lose out, but large individual firms and sectors of capital itself. The effect is to make capitalism very uneven and every more insecure. Finance capital can squeeze manufacturing industry and other sectors to the point where its own profits appear obscenely huge, year after year. Its own rate of profit, being based on an asset valuation, totally divorced from value, can vary widely.

Calculations of Value and its Impossibility

As a result, the idea of calculating the real rate of profit, based on values, is simply an unrealisable dream. We have a capitalism closer to the Russian doll, where the more we delve, the more entities do we find. It is, therefore, the case that only in a static capitalism would there be an observably declining rate of profit.

Furthermore, the issue in a dynamic, if declining capitalism, is not one of an absolutely declining standard of living but of a declining share of value added and that itself is not automatically observable when looking at official statistics which are not based on value. We can surmise that the official statistics showing the rich getting richer and the poor getting relatively poorer reflect value but we do not know that to be the case.

The whole question of whether values can be calculated from official figures has been discussed by a number of more quantitatively based Marxists, but, not very satisfactorily, in my view. Surplus value is, of course, not the same thing as profits. It is not easy to add to reported profits, taxation, interest, rent, middle to higher management salaries, advertising and other selling costs, over-rapid obsolescence and bloated depreciation.

To make matters worse, profits and other economic accounting categories can be raised or lowered by various tricks in order either to reduce taxation or to present acceptable figures to the stock market. In this respect, only a forensic accountant would be capable of getting at the real profits. The scandals over Enron, World.com, etc. showed that losses could be hidden in other parts of the world, workers need never be paid wages directly but given shares instead, payments to executives concealed, and pension funds artificially manipulated to allow an increase in profits. Accounting practices have evolved to suit the period. Enron is a particular example of auditors conforming to what their clients wanted but only the naïve would consider that it was an exception. It is obvious that the post-2000 scandals were only the tip of the iceberg. While it is clear that, in principle, surplus value could be calculated, it is also quite plain that it might require considerable resources to do so, not to speak of a detective agency. Indeed an overall calculation of profits in a particular economy would require the staff of a major institute.

Modern academia conforms to the needs of capital and so emphasises measurement above all. Orthodox economics is its handmaiden and hence Marxists in economics departments, in so far as that is possible, tend to look for ways of introducing equations, computerisation and calculations, all of which are supposed to introduce rigour into the analysis. It is generally accepted that a rigorous analysis of not very much, i.e. an economic aspect with very restrictive assumptions, cannot tell you very much. Some Marxists, therefore, try to square the circle by relaxing the initial assumptions on the area to be examined but then smuggle in the limitations in order to find relevant statistics.

There is no way, at the present time, that Marxists can produce reliable statistical predictions on the nature of the capitalist economy both because of the complexity of the nature of crisis itself and because the actual task is beyond the capabilities of individuals or a relatively small group of individuals. Nonetheless, given the stress in academia both for immediate results as well for statistical data, many, perhaps even most, Marxists have attempted to produce numerical theses. While these articles may have their own validity, they cannot use value data, since they do not exist, and hence these essays are not Marxist, whatever the author's intentions.

Marxism cannot, in fact, be used for determining prices, for planning or for macro-economics. Marxists have no need to worry, complain or find alternatives since the aim of Marxist political economy is very different. Explication of laws, and hence of contradictions is necessarily qualitative and deductive, rather than inductive and in the form of generalisations.

It makes more sense to look at the decline in the production of value as the aspect of the declining rate of profit which can be observed and discussed. That the rate of profit is crucial to capitalism is obvious, but the particular role of the decline in the rate of profit in capitalism and its crisis is better discussed qualitatively, as it were, rather than in terms of its short- or medium-term role.

In other words, we have to ask how it is that the rate of profit has been effectively stabilised and return to the earlier argument.

Disproportionality and Underconsumption

Above it was pointed out that the provision of the military sector on the basis of its needs, provided a huge stimulus to the USA and so world economy. This was, of course, supplemented by similar provisions in Western Europe with the important addition that there nationalised sectors and welfare provision added to such demand. The effect was to reverse the tendency of a capitalist economy to underconsumption, since the government tended to base itself on particular goals rather than on money provided by taxation. The particular form of the nationalised sector in the USA is the arms sector and the Cold War turned the potential for capitalist crisis on its head. It meant that there was constant demand for department one goods from the government and hence permanent industrial growth, continual subsidy of particular firms and economic sectors, on various pretexts from the need for protection against

foreign firms to the importance for employment, and control over wages combined with elements of a welfare state. This point has already been discussed above.

Although there are various elements to this policy, it was effectively based on war, both imagined and real. A glance at the history of the world over the last century shows that it has been in virtually continuous war for the whole period but most particularly since 1939. An economy which can only function in the presence of war is a barbaric economy. It implies that capitalism in decline has to find an external means of survival. This was already clear with the emergence of post-1870s imperialism. The latter, however, had a purpose-to extract tribute from the third world and it did so successfully at great cost to their populations. War from 1939 onwards has had an important economic function, fully appreciated by the Nazis at the time but not so clearly understood by the West. The end of the Cold War and Stalinism has meant that the March 2000 downturn was the first overinvestment crisis since 1940. The Iraq and Afghan Wars have taken up the slack, with expenditure on the military and those wars doubling US expenditure on military causes. The point is not to discuss the present but to point out the decadent nature of an economy which is so dependent on wars to keep its economy afloat.

Finally, the still considerable fiscal role of governments in providing unemployment benefit of different kinds, child support, free health and education, pensions and various subsidies in many countries shows where society is heading. It is true that finance capital and its political representatives want to cut the role of the 'state' and continue to privatise whatever economic activity is nationalised. That conflict is inevitable precisely because capital recognises its own decline and its fighting to maintain itself. The problem, however, is that much of the privatisation has shown the market up as inefficient, ineffective and muddling. Given the tremendous handicaps that the public sector suffers from in a capitalist society that such could be the case. We can only conclude that in certain respects and in particular sectors private enterprise is in an even worse state.

Conclusion

I have argued that only by marrying pristine Marxist theory with a theory of decline will we be able to come to a theory which will explain the limits of modern capitalism. I have not outlined those limits, only sketchily indicated certain aspects, but tried to argue that Marxist theory has the tools to provide the necessary explanation.