

CRISIS

The theory of capital

More and more people are saying, 'Marx was right'. But can the present crisis of capitalism be explained by the tendency for the rate of profit to fall, famously discussed by Marx? Profits are high and there is a massive overaccumulation of capital. This is edited version of the speech by **Hillel Ticktin** to Communist University 2011

I want to concentrate on the crisis in Marxism itself. But, having said that, I will contradict myself by saying that it is not possible to talk about Marxism and the crisis simply in the abstract - one has to apply it. So I will have to discuss to some degree the current situation.

Most people will have either read the *Financial Times* or come across its reports on the crisis in other papers. I have never read so much gloom. You get a sense, which you do not find amongst Marxist writers, that the system is in real trouble. Charles Moore in *The Daily Telegraph* has written that the left was right and the right was wrong.¹ Coming from someone like that - given how rightwing he is - one has to say such people have lost their self-confidence. That was very obvious from a recent front page of the *Financial Times*, where it is concluded that nobody wants to invest - everyone is taking their money out of companies, the stock exchange, etc, and just putting it into the bank to gain interest.² Someone who came from outer space reading this would be convinced that capitalism was finished.

If you read the details, it would appear that Mellon - one of the major banks in the United States, which accepts deposits from so-called 'high-net-worth individuals' - have had such an enormous flood of depositors that it is now charging them for taking their money instead of paying interest. And yet the flood goes on. That is the nature of the present crisis; it is not the same as 1929. Now the capitalist class is refusing to invest - a situation that has existed for some time. In one sense there has been one continuing crisis since 2007, involving a large overhang of capital which is not invested. The issue really is the huge levels of surplus capital, but now the situation has worsened. Money is being put into banks - put into the third world, put anywhere - so as to get it out of the line of fire.

This demonstrates the fear that something will spark a downturn of considerable proportions and it is what comes through in the *Financial Times* reporting. It is a crisis of confidence. It was Roosevelt in 1933 who said: "We have nothing to fear, except fear itself." It is interesting that they are afraid when the working class is not advancing. They are not afraid of the working class directly: they are afraid for the system. Charles Moore's statement amounts to surrender.

Rate of profit

Marx never examined the problem of surplus capital - the term is not used in *Capital* itself. The concept is discussed more - as a concept - later, by Hilferding and Lenin himself. In fact if one simply refers to the three classic causes of crisis used by Marxists in the last 50 or 60 years, then one cannot get to the nature of what is happening today.

The main Marxist theory of crisis that has been put forward is the falling rate of profit - the idea that the rate of profit falls with the rising organic composition of capital, other things being equal. The organic composition of capital is the ratio between constant capital and variable capital - in other



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words, it amounts to the number of labour hours in relation to constant capital (that includes raw materials, although many people look at it simply in terms of fixed capital). The argument, therefore, is that the rate of profit must fall over time, because, as productivity rises, there is an increasing use of machinery and raw materials in relation to the number of workers employed. So the number of workers will go down in relation to inanimate capital, hence the surplus value actually produced must itself go down.

It has historically been true that the organic composition of capital tends to rise. There is no question that it is true - but it is not true always. There are times when productivity leads to a reduction in constant capital - this has sometimes occurred during the post-war period. That is the nature of rising productivity.

Productivity in China is 12% of that of the United States and is a major reason why today capital is no longer going into China to the degree it did previously - and in fact is flowing back to the United States. Low productivity does not mean that Chinese people do not work hard, but that the level of machinery per worker is relatively low in China, compared to the United States.

The effect of that is that over, say, 300 years you could expect the rate of profit to fall or eventually come to a point where surplus value - value itself - would be abolished, because there would be so few people actually working and machines would be making machines. In socialism you would expect machines to be making machines, but if capitalism lasted - which it will not - for another 300 or

500 years you would eventually still arrive at the point where surplus value was no longer being produced. That is the logic.

The argument that crises are caused by the falling rate of profit is the major one held on the left. It is a viewpoint held by some as an orthodoxy that is almost absolute. It is the viewpoint put across in journals of the Socialist Workers Party and in the Marxist-humanist writings of Andrew Kliman.³ It was put forward by the Revolutionary Communist Group from 1973 onwards and then adopted by *Capital and Class* to a large degree. It is hard to be on the left and not adopt that viewpoint, as you have to be able to argue in detail as to why it is incorrect.

In very general terms, it is obviously true that the falling rate of profit is part of Marxism. If you accept the labour theory of value, then a rising organic composition of capital must lead to a decline in the rate of profit. But it does not automatically follow that this is the cause of crisis. Marx does not discuss it in those terms. As for Lenin and Trotsky, it is obvious that they did not regard it as a major cause of crisis. Luxemburg mentions it, saying it will take as long for the rate of profit to fall to zero as for the moon to fall from the sky. So she too is pretty clear that it does not play a role in crisis.

There is an orthodoxy, which came into being in the 1970s, put forward by David Yaffe in particular, which presented the whole thing in a mathematical form. That Marxism should explain the decline in the rate of profit and then crisis in such terms is very odd, since Marxism fights precisely against such notions. The whole question of crisis was removed

from the arena of class struggle and turned it into a technical issue.

One of the arguments used in favour of crises being caused by the falling rate of profit was that it was not a reformist proposition. Well, it is perfectly true that the only way in which capitalism can end crises is to abolish itself. If one argues that within capitalism there will be an ever declining rate of profit until it reaches zero - if that is the case, capitalism has an automatic enemy, as it were: itself. Which David Yaffe repeated *ad nauseam*. But, as I said, it does not necessarily follow in the short term. It follows in the long term, but the long term could be 300 years.

Let us look at the arguments in volume three of *Capital*. Firstly it is noticeable from the language, the sentences and the paragraphs that this volume is clearly a draft, unlike, for example, volume one. When Marx talks of the decline in the rate of profit owing to the rise in the composition of capital, he stresses the importance of the rise in productivity. He makes it very clear that increased productivity is the objective justification for capitalism itself - it makes socialism possible. In the process of fulfilling its historic mission, it raises productivity and at the same time the rate of profit falls - but the two are inexorably bound together.

The problem, however, is that when productivity rises it does not follow that the rate of profit falls: it may or may not. Because, after all, if productivity is raised the cost of the means of production goes down, or can go down. The tendency of the decline in the rate of profit can be completely offset, precisely because productivity has been raised in the production

of the means of production. You would expect that to happen. Marx goes through the different ways that productivity rises, the ways in which the fall in the rate of profit will tend to be offset.

One process

In other words, the people who support this kind of absolutist view of the falling rate of profit tend to ignore the fact that this process is really one. It is not just that, on the one hand, you have a decline in the rate of profit and a rising organic composition of capital and, on the other hand, rising productivity. It is one and the same process: they cannot be separated. You are necessarily raising productivity, which is offsetting the tendency. It causes it to slow down over historic periods, and it follows that at any one time the rate of profit may not be falling or it may be falling so slowly as to have no effect.

Those chapters of *Capital* were put together by Engels. That is not to say that he put them together wrongly: as long as you understand Marxism, it does not make much difference. But if you do not and if you do not know the dialectical nature of Marx's arguments you might interpret these chapters simplistically: on the one hand, the rate of profit falls; on the other hand - quite separately - there are offsetting factors. But, as I have said, they are an integrated whole. That is the way Marx argues. The fact that the two aspects are put separately has unfortunately misled people.

Now, one of the arguments put forward was that to propose causes of crisis other than the falling rate of profit must be wrong, because they lead to reformism. As somebody trying to examine the theory in a scientific way, I regard it as absolutely stupid to say, 'This argument is not reformist; therefore it is right.' That was argued very strongly in the 70s and it is symptomatic of a degeneration of Marxism. So, for example, the arguments of Andrew Glyn and Bob Sutcliffe were ruled out of order, because they were said to be automatically reformist. The late Andrew Glyn, a theoretician of the Militant Tendency, may or may not have tended towards reformism, but that is really irrelevant. The question is whether his theory is or is not correct. That is the way we have to work: we have to identify the truth and not begin by saying what may or may not lead to reformist conclusions. A theory arising from a reformist viewpoint would tend to be wrong, but that does not mean it is necessarily wrong.

That kind of false logic goes back hundreds of years, but it has particularly been employed on the left, which has been ruined by Stalinism. It always judged the end product by whether it was good or bad for itself. That was really the only criterion. However, people are still arguing in this way today. I myself recently had an exchange with somebody who is very well known in Marxist philosophy and Marxist theory, who argued exactly that way - that certain arguments should not be considered because they have a reformist outcome.

Another argument against the

Capitalist disintegration

falling rate of profit as a cause of crisis is that it does not tell you at what point the rate of profit is actually to be considered low. In the United States it has tended to be around 12%, but if it dropped to 10%, or 5%, does the capitalist class stop investing? When does the rate of profit show itself and why does it show itself? Nobody has even asked the question. Once one goes through different aspects of the argument, it does look rather weak.

How does one calculate what has happened to the value which has been extracted? The calculations made by governments and financial agencies relate to price, not value. How does one arrive at value quantities? One way is to take, for instance, the self-serving Okishio's theorem, which just says price equals value. That is a pretty dubious statement. It is necessary to establish what the objective relationship between prices and values is. If you reject that, you just cannot calculate values.

The next point is that, even if you could calculate values, how do you actually get to the point where it is possible to do so? As we know, much of the profits of many companies are put into various offshore havens. They are not on the books. How are you to make your calculations if you do not have this information? In general we do not know what real profits actually are. It is standard practice for companies to conceal profits in order to reduce their liability to taxation or, alternatively, to enhance them in order to achieve a higher share price. You would need a forensic accountant to be able to work out what the rate of profit really is. Simply looking at national statistics does not tell you very much either. It may or may not give you a tendency, but it will certainly not reveal the values involved.

I have been through all this in some detail for the simple reason that it is the standard viewpoint on the left that the tendency for the rate of profit to fall is the cause of crisis. This leads people to infer that there has been a recent profit slump. But why we should think the capitalist class has been having a very bad time when it thinks it has had a good time I do not know. That we should say their profits are low, when they say their profits are high, is very, very odd. In America, wages have in fact been going down over the last 30 years. It does not make sense to say that somehow wages went down, but so too did profits.

Surplus capital

Taking into account the real class struggle and the reality of the current relationship between the capitalist class and the working class, profits without question have been high. The problem for capital has not been the amount of profit: it has been the lack of investment opportunities, which have decreased over time. There are huge sums of money, which have nowhere to go, and they are bigger now than ever. It was also a problem in the 90s: money was invested in east Asia, but all that collapsed; then investments were diverted into long-term capital management funds, which collapsed, and into the dot-com boom, which collapsed.

So it is not so much a question of 'unnecessary bubbles', as they put it, but huge sums of money which have nowhere to go, which create bubbles and which have to collapse. That is much more what one is actually talking about, not simply a falling rate of profit. One can, of course, always isolate oneself in one's own little

bubble and insist that the underlying problem is the falling profit rate. That, as far as I can see, is what Andrew Kliman is doing, for example. He tries to argue that the rate of profit appears to be higher than it is because of declining taxes or whatever.

In order to understand this, we really have to understand what has been happening to capital. We have to understand the historical nature of capital over the last 150 years, and the strategy adopted under conditions where the problem has actually been surplus capital. The orthodoxy on this question within Marxism was derived from Lenin, who did argue effectively about the significance of surplus capital, mainly in terms of monopoly capital.

Monopoly in orthodox economics concerns a declining curve in relation to the market. In other words, production is controlled in order to keep commodities at a particular price. Today there is not a situation where a large number of firms compete with each other: there are a limited number of firms, which basically collude - whether as a cartel or politically, it makes no difference. The result is that they only produce a certain amount in order to maintain or raise their profits. This in turn limits the amount of capital invested. That is basically the theory put forward by Lenin and it is hard to argue against it.

Whether that is the whole reason why there was a shift to finance capital is not the question. Lenin was trying to explain imperialism and he explained it in terms of the growth of surplus capital, which leads to finance capital, which then leads to the export of capital and the conquest of various countries around the world. Since then we have learnt that, while Lenin was right, most of the exported capital did not in fact go to the third world. Effectively it financed the development of the developed countries - most typically Germany and the United States.

Hilferding's theory, which Lenin took as his starting point, was actually wrong. His overall concept of finance capital was correct, in terms of the banks lending money on a large scale to companies and then controlling the companies. But the trouble with the argument was that German industrial companies did actually continue to develop and the control of the banks in Germany, as today, was relatively limited, compared to the situation in Britain.

Banks over here will give you a loan over 18 months at a high rate of interest. In Germany the tendency has been for loans to extend to, say, 20 years, which means the banks do not control the company in the short term, as they do in this country. Britain was in fact the classical finance capitalist country - then it became junior to the United States. But this was not the case with Germany in the way that Hilferding and Lenin thought it would be. They did not realise that Britain had already been through the same stage as Germany - the banks had financed the development of industry. In other words, it was Britain which was the finance capitalist country.

The argument was - and I think it was correct - that the development of finance capital and imperialism stopped a possible long-term depression - Cecil Rhodes said, 'Either we go imperialist or we face a revolution.' And it has to be said that it worked - whether or not an aristocracy of labour came into existence, as Lenin believed. The trade cycle with its downturns

became much less important in the period of imperialism's development and the standard of living tended to rise in the developed countries. We can therefore say that this was a way out for capitalism. It was barbaric - millions of people were killed in the process - but it worked. The system was maintained, the rate of profit was raised, capital could be exported. A similar purpose was served by war. The point is that capitalism has found a way out of crisis in the past through imperialism and war.

Other aspects

Let me deal briefly with the other two aspects of crisis, as expounded in Marxist theory: underconsumption and disproportionality. There is no question that the export of the production of the means of production - 'department one' goods - which occurred under imperialism, would impact on the demand for investment goods.

Marx does say that, in the last analysis, it is the low income of the majority which is crucial in understanding crisis. Exactly what Marx means by that is something else, but underconsumptionists like Paul Sweezy usually quote it. I do not think that there is any question that underconsumption plays a role in crisis - whether it is the ultimate or sufficient cause is another matter.

However, if one comes to the conclusion that underconsumption is the cause of crisis, then that is what one ought to go through with: one ought not to say that it is reformist and therefore reject it. Luxemburg believed that underconsumption was key and she was no reformist - nobody can accuse her of that. In the history of Marxist theory it has clearly been possible to adopt an underconsumptionist viewpoint and remain a revolutionary. But the theory is wrong simply because demand can manifest itself as demand for the means of production (department one goods) instead of for consumer goods (department two).

In the early years of the 20th century the ideal capitalist economy was considered to be one where there were no consumer goods. Although this is an absurdity and such an economy could not possibly exist, with such a model investment in the means of production could continue to increase indefinitely, thus providing some sort of equilibrium and a means to achieve stability. Part of demand must be for the means of production and part for consumption, and capital can shift from one to the other, and has tended to do so.

Imperialism and war production also aided this process very successfully up to a point. However, the essential problem at present is the end of the role of war in this regard. Afghanistan and Iraq were puny and trivial in terms of demand. If enough helicopters are shot down, it might help, but there are not enough. Iraq was a low-intensity war, using guns and artillery, rather than large, expensive weapons, such as cruise missiles. So such wars cannot be a solution at the present time. In addition imperialism is not what it was. Today, opium cannot be forced on China, nor can the same rate of surplus value be extracted - and, of course, China is not a mere dependency any longer.

When Marx describes crisis, it is not simply in terms of a downturn, but much more in terms of a general understanding of capitalism. He says: "The world trade crisis must

be regarded as the real concentration and forcible adjustment of all the contradictions of bourgeois economy."⁴ And that, of course, stands directly opposed to any simplistic version. We are talking about all the contradictions of bourgeois economy and in this context it is very obvious when one looks at the particular problems in the United States - the absurdity of having to raise the debt ceiling - or the possible dissolution of the euro zone: the fact that they cannot come to a decision on anything.

What is a contradiction? A contradiction involves the interpenetration of opposites. As long as the capitalist economy does allow the interpenetration of opposites, it can go on. Marx talks of a crisis occurring when the poles of the contradiction cannot interpenetrate, when they are in conflict. That is where we are now. So the logical solution to a crisis - in which the working class does not take power, that is - is disintegration. We are seeing that very obviously today: whether it is in riots, in what is happening to the EU, or national states, or economies around the world, disintegration is the logic in the present stage of capitalism.

How then can the working class act under those conditions? Well, clearly a crisis does two things: on the one hand, it creates the conditions under which the working class can take power. On the other hand, the ruling class loses faith in itself - and that appears to be happening, rather obviously. Ultimately what they are scared of is that the system will actually go down - they do not know what that means, given that the working class is not standing directly opposed to them. The ruling class can no longer rule in the old way: that is one of the conditions of a revolutionary situation. Of course, in Greece and a number of other countries that might be true in a very profound way.

Stalinist ruin

The question though is the effect on the working class. Here I think what is crucial has been the role of Stalinism in preventing the working class existing as a class and preventing the formation of a working class party: in ruining Marxism. As long as the left cannot come to terms with Stalinism, it will never form a party which is able to lead the working class. Stalinism was a strategy of the ruling class - they did not want it or invent it, but they used it and it did destroy the possibility of the proletariat forming itself as a class over the world.

The great thing, however, has been the destruction of the Soviet Union. I am deliberately saying this because I know that some people will hate me for it. Of course, it is perfectly true that the position of many people in the former Soviet Union is now worse. I do not think that alters the fact that the existence of the USSR was the primary reason why the working class could not organise.

Although social democracy was crucial in 1919, it later became dependent on Stalinism. It could not have survived without what was in effect the support of the Soviet Union. The concept of 'planning' (planning which was not planning, which did not work) came from the Soviet Union. But in Britain the concept was adopted by Labour governments. The whole bureaucratic apparatus was worshipped.

As long as Stalinism remains the incubus around the left, as long as people on the left refuse to actually take up this question, we will get nowhere. Who on earth wants to have a society which is even remotely like the Soviet Union? It would be better to have capitalism. At least there would not be mass murder on the kind of scale that took place in the USSR.

Apart from its horrific nature, the fact is the Stalinist parties consciously acted to stop any real movement of socialism and consciously fought the left. In particular countries they actually wiped the left out. But in the later period, it was simply the fact that their policy was always one of compromise. Compromise with the bourgeoisie, because the Soviet Union wanted that - we know that is what happened in 1968.

The essential point is that if we look at the present we look at crisis. It certainly is a crisis of the type described by Marx - one that undercuts the capitalist system. You would expect the working class to be able to rise and take power, but it clearly cannot do that today. For that to happen there has to be the formation of a Marxist party. But at the same time it has to destroy all acceptance of any aspect of Stalinism, all references to it in its practice. It must try to come to terms with what has existed, and what should exist ●

Notes

1. 'I'm starting to think that the left might actually be right' *The Daily Telegraph* July 22.
2. 'BNY Mellon to charge on \$50m-plus deposits' *Financial Times* August 4. According to Wikipedia, Bank of New York Mellon has \$1.2 trillion under management and "25.5 trillion assets under custody and administration".
3. See <http://akliman.squarespace.com/crisis-intervention>.
4. *MECW* Vol 32, p140.

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