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 Hillev Ticktin to Communist University 2011

I want to concentrate on the crisis of capitalism. I have 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 know, what happens is that you find amongst Marxist writers, that they are 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 are in a difficult situation.

That was very obvious from a recent front pages 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 Something about outside story 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 depositories 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 never been seen before. The problem is that there has been a continuing crisis since 2007, involving a large overhang of credit and not investment. 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 fire.

This demonstrates the fear that something is wrong and a dress-out of considerable proportions and it is what comes through in the Financial Times reports. 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 his work. The concept is discussed more - as a concept - later, by Hiliafterling and Lenin himself. In the 70s and 80s and in the three classic causes of crisis used by Marxism, the last one is only used because one cannot get to the nature of what is happening today.

The role of Marx 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 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. It is a phenomenon 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 zero. It is really an icon of the industrial revolution. The basic formula is that if you have a technical change then the rate of profit will tend to decline.

The effect is that over, say, 300 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 that is put across in journals of the Socialist Worker 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 general very 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, they made a famous statement about the rate of profit being a technical issue. 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, 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 increase 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 historical 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 have to look at it in the round. But if capitalism goes through the different ways that productivity rises, the ways in which the rate of profit will tend to be offset.

One process

In other words, the people who support the argument that the falling rate of profit tend to ignore the fact that this process is really one. You cannot put forward that 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. So as to get it out of capitalism.

You are necessarily raising productivity, which is offsetting the tendency. It can also offset this process in the long term, 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.

Capital and surplus Capital were put together by Engels. That is not to say that he put them together: wrongly as long as you understand it, 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 conceptually: on the one hand, the rate of profit falls; on the other hand - quite separately - there are offsetting effects. 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 Sucliffe 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.

This is not just a technical issue. 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 reformist, but that does not mean it is necessarily wrong.

That kind of false logic goes back to the 70s and 80s, but it has particularly been employed on the left, which has been ruined by Stalinism. They do not take the opportunity to ask whether it was good or bad for itself, rather than examining any given criterion. However, people are still arguing in this way today. I myself recently had a discussion with someone 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
falling rate of profit as a cause of crisis. The classic problem is to point the rate of profit is actually to be considered low. In the United States it is measured at 10% or 15%. If it dropped to 10%, or 5%, does the capitalist class feel threatened? How does the rate of profit show itself and why does it show itself? Nobody has ever worked out what the rate of profit means, because it goes through different aspects of the argument, it does look rather weak. 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 be argued that without what was in effect the support of the Soviet Union. The concept of '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 incrustation 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 create a society which 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 consistently acted to stop any real movement of the working class, they fought the left. In particular countries they actually created the left out. But in the later period, it was simply the fact that their policy was always one of trying to somehow reconcile the bourgeoisie, because the Soviet Union wanted that - we know that is what happened.

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 is happening on both sides of the Atlantic. We would expect the working class to be won over to socialism, 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

- I think that the left might actually be right! The Telegraph July 22.

The updated Draft programme of the CPGB was agreed at a special conference in January 2011. It will be adopted at the conference and its political strategy, overall goals and organisational principles in six logical, connected sections, to show in no uncertain terms the political strategy, overall goals and organisational principles in six logical, connected sections, political strategy, overall goals and organisational principles in six logical, connected sections, political strategy, overall goals and organisational principles in six logical, connected sections, political strategy, overall goals and organisational principles in six logical, connected sections. 5. 'I'm starting to think that the left might actually be right' The Telegraph July 22.

Powerful weapon

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