

WHERE ARE WE GOING TODAY? THE NATURE OF CONTEMPORARY CRISIS

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INTRODUCTION

This article sets out to outline, in two parts, the nature of the contemporary crisis. It argues that the present stage of human history is particularly complicated and that therefore any discussion of the present must try to disentangle the nature of the intersecting forces at work. At the same time, complexity is no excuse for superficiality and hence the article attempts to draw together the different forces in a general theory of the contemporary economy. The first part discusses the essential aspects influencing the present day crisis. The second discusses the crisis itself and will appear in the next issue of *Critique*.

Methodological Notes

The political economic situation in the world today is highly complex. Marxists, following Hegel, start from the proposition that the essence determines the actuality. This does not mean that complexity is reduced to a simple one on one determination as some, ignorant of Marxist methodology, would have it. It means, instead, that the numerous individual factors which determine a particular political-economic question can be interrelated and hierarchized in a more profound driving causality underlying the movement of that question. In a static situation, it is enough to enumerate the different elements involved but where there is movement it is essential to understand the basis of that movement.

In the mature phase, as opposed to an embryonic or declining phase of a mode of production, such as capitalism, the laws of motion are less complex because there is only one set of laws involved. Hence the essence of the mode of production resides in the movement of the fundamental social relations of that particular mode of production, which is normally expressed in its law of motion. In the case of capitalism, the social relation involved is that of capitalist and worker, while the law of motion is the law of value. If we define the law of value as the movement and

Nature of Contemporary Crisis

interpenetration of the two poles of exchange value and use-value it is clear that there is no simple reductionism involved. The essence then expresses the profundity of the particular concrete situation. On the other hand, it can also be said that such profundity is simple because it has determined the nature and direction of the determining causality through a single law. The law itself is all embracing in its operation but it organises reality in a particular form, which gives shape to that reality. The law establishes a symmetry and elegance in its organisation of reality that allows a more profound understanding of the movement of that reality.

Simplicity in this interpretation is profound and profundity is simple.

Such simplicity is absent in a transition period or period of decline, in which more than one law of motion is in operation. In the case of the present day it might be said that we are speaking of the operation of the laws of motion of capitalism, the action of the laws of decline of capitalism and the highly refracted operations of the laws of the future society. The result is that the essence itself is fractured and the categories themselves are similarly fractured. Any particular situation becomes highly complex even in the essence. There is no simplicity in the sense defined above.

What is the consequence of this discussion? Firstly, the present looks highly confused and remains so confused unless the investigator uses tools of analysis which permit penetration below the level of confusion. Post-modernism, from this point of view, is an understandable if regrettable reaction to the present time, since it takes the present in all its multidimensionality and attempts to express it in a particular language, rather than in its profundity. Secondly, such confusion can take the form of its opposite - excessive simplicity. Abstraction from decline and transition leads to a simplistic analysis. The present is cast in the form of 19th century capitalism - a 'pure' capitalism. Such an analysis does provide some insights but they are limited. The task, therefore, is to provide an analysis involving a series of determining aspects of modern reality. Thirdly and more concretely, the laws of a mature capitalism cannot be used, today, in their pure form. Hence, for instance, the falling rate of profit must be interrelated with the effects of the redistribution of surplus value consequent on the Cold War/Stalinism and imperialism. This aspect is described below.

The Background to the Crisis

Turning then to the present, I would regard the political economic crisis of the present day as a compound of the following series of laws. In the first place, there are the laws of classical capitalism. In relation to crisis - this implies that we have to discuss the inter-relation of the falling rate of profit with disproportionality and underconsumption in order to understand their total interaction. In the second place, we have to understand how these categories have been changed under the laws of a declining capitalism. In the third place, it is necessary to understand the way in which the transition from capitalism has also changed those laws.

Imperialism, Fascism, the growth of monopoly and the dominance of finance capital are aspects of decline. Decline is defined here as the progressive malfunctioning of the law of value.¹ The replacement of the law of value with such needs based sectors as health and education, nationalisation, the arms sector and forms of proto-planning all represent a movement away from capitalism.²

The Cold War, Stalinism, and social democracy are all crucial moments in the interaction of these laws. Furthermore, it is no longer possible to view the operation of the laws of capitalism as if they were operating in a purely objective way, without any conscious intervention. The capitalist class has intervened in a conscious and collective way in the operation of the economy for at least a century but it has been only since the October Revolution that they have felt constrained to take a more collectively interventionist attitude to the economy. It was the so-called Keynesian revolution which best encapsulated their new approach but Fascism performed the same service in relation to the economy, whatever the real differences. Monetarism is also highly interventionist, whatever its

¹ For further discussion on the immanent nature of decline see , *Critique* 26, 1994 'The Nature of an Epoch of Declining Capitalism', p86: "The word decline may be said to refer to the worsening ability of the system to solve its own problems. The contradictions of the system find progressively fewer possible mediations, and what is worse the system finds mediations which are more and more in conflict with the nature of the system itself."

² See my articles in *Critique* 23, 1991 pp153-158 'The Decline of Capitalism', *Critique* 26, 1994, pp. 69-93: 'The Nature of an Epoch of Declining Capitalism'

Nature of Contemporary Crisis

rhetoric, although it has tried to use so-called economic instruments to a greater degree than in the previous period.

The closer capitalism comes to its overthrow the more the objective and subjective must interact, becoming at certain times hard to distinguish in the operation of the economy. In a long-term sense, this is an almost banal truth, since socialism requires conscious regulation of the economy and the seeds of socialism are born within capitalism itself.

Marx's profound insight that the new forms mature in the womb of the old system applies as much to capitalism/socialism as to feudalism/capitalism, in spite of the attempts of various Stalinists to argue that the transition to socialism was different. The need to consciously regulate the economy is the basic law of a socialist society and hence its embryonic forms are evident in an advanced capitalism, and even more in evidence in a declining capitalism. The bourgeoisie is compelled against its will to plan but it lacks the instruments to do so, since they can only come into being under socialism itself, with the associated producers having direct input into planning. The result is increased disorder under apparent conditions of increasing order. The point, however, is that the new forms are being born in the womb of the old society but they cannot operate in the old environment, while the old laws can no longer function properly under conditions which require the new forms. Both mental and material confusion results. The present cannot be understood in a simple rational way, as it were, because the laws of the system cannot operate in a rational way. That does not mean that the society cannot be explained but it requires a high level of theoretical sophistication to explain the society. It may even be the case that only the new society will be able to explain the old society.

Put differently, the bourgeoisie cannot impose its will on the situation but it attempts to solve the increasing disintegration, conflict and antagonism between the poles of the contradiction through a series of measures, which become increasingly ineffective within a particular class equilibrium.³ Trotsky argued during the 1920s that each period of modern history is

³ The concept of a particular class equilibrium is derived from Trotsky's essay on the long wave, see L. Trotsky: *The Curve of Capitalist Development*, in L. Trotsky: *Problems of Everyday Life*, Pathfinder Press.

characterised by a particular set of class relations, which he termed a political-economic equilibrium. He did not develop this profound insight which he incorporated into his theory of the long wave. I would argue that this class equilibrium, once established, gradually begins to break down, eventually reaching crisis point.

Crisis here refers to a disintegration in class relations, usually embracing an economic downturn. In a crisis the different economic categories stand in an antagonistic relation to each other rather than in a co-operative or interpenetrative relation. The fact that there is a crisis does not imply that capitalism is finished or in terminal decline but only that the bourgeoisie can no longer hold the different elements of the system together. Whether the system is held together objectively or subjectively or both makes little difference at this level of analysis. The essential point is that capitalism is faced with crisis in both the medium and long-term. The medium term crisis is the one discussed above while the long-term crisis refers to the progressive increase of the elements of decline and transition, which negate the essence of capitalism itself.

At this point a clearer definition of crisis is in order. A crisis in the capitalist system occurs when the different forms of mediation used by capital to hold the system together can no longer do so. The contradictions within capitalism reach a point where the poles stand directly opposed in antagonistic relation to one another. Exchange value stands opposed to use-value, sale to purchase, money to the commodity, capital to labour etc. and the mediations required to bring them together can no longer function. So, for instance, credit or finance can no longer lubricate the system because the banking system itself is in dire straits. In other words, a crisis does not occur because the rate of profit is falling or workers cannot buy goods or department one is overproducing but only at the point when any mediation of the one leads to a breakdown in the other. The other can be patched up but that mediation leads in turn to a failure in another aspect of the economy. In principle these mediations occur all the time in the course of capital reproduction but they become progressively more difficult over the course of a so-called cycle. The class struggle is the ultimate arbiter of

Nature of Contemporary Crisis

crisis because the capitalist class can always try to reduce wages and worsen conditions of labour in order to restore the rate of profit.⁴

It will be noted that the above description of the capitalist economy applies as much to the long-term as to a 'cycle-period'. The point is that capitalism is in long-term decline but, at various nodal points, a new equilibrium has been established, which allowed the economy to grow until the working class once again threatened that equilibrium. The working class could threaten the equilibrium without any subjective intention of doing so in that the reduction of the reserve army of labour and the increasing socialisation of labour would automatically push the balance of the class struggle against the ruling class. What does this mean about the present time?

The Question of Periodisation

In order to understand the political economy of capitalism, it is necessary to divide its history into specific categorical forms, epochs, periods of equilibrium, long waves, and cycles. Any particular political economy of the current situation must embrace them all. Other epochal type theories like regulation theory, world systems analysis and other theories have attempted to discuss capitalism in its development. This is not the place to produce a critique of those analyses. The point is simply to emphasise the necessity of using particular categorical forms to analyse modern capitalism and so the particular crisis or situation at the present time. Trotsky is the father of such analyses with his theory of the long wave and concepts of both the epoch and equilibrium. I shall use these categories as derived from Trotsky, though in my own interpretation. In addition, as discussed above, capitalism goes through its own evolution from embryo, through maturity to decline and death. Within the phase of decline, we can discern particular epochs, reflecting the dominance of a particular form by which capital continues to accumulate or disaccumulate. They are not necessary epochs in that capitalism in decline is capitalism on oxygen, surviving

⁴ The term rate of profit needs explanation at this point. It can refer to the simple rate of profit at any one time, which will be determined by a series of immediate factors, such as supply and demand for goods. Profit, in other words, is the form of appearance of surplus value and as such is subject to the same qualifications as price. This is the meaning at this point. On the other hand, the rate of profit may be regarded as a necessary relation totally determined by the rate of surplus value and the organic composition of capital.

beyond its allotted time span through political victories over the working class. An epoch of capitalism, in my view, is determined by a long-term change in the form of extraction of surplus value. Thus the epoch of finance capital provided a particular form by which surplus value was extracted from the colonies or neo-colonies as well from the metropolitan countries. Equilibrium under capitalism refers to a particular set of class relations in which the two classes are battling over a particular and temporary set of conditions around the overall form of the extraction of surplus value. The equilibrium can be both global and partial - different for each country. The conditions include, for instance, massive repression or huge concessions, neither of which can be maintained for very long. Within the imperialist epoch we may argue there has been an equilibrium under Fascism, the welfare state etc.

There is a further complication in that there are clearly longer epochs and shorter epochs and particularly dominant or influential political-economic changes, which underpin a number of such shorter epochs. These overarching changes buttress a particular relation to the working class. Imperialism may be held to be such a form. Stalinism is another. In a sense we are talking of an era of imperialism or Stalinism. The term is of secondary importance but it is crucial to indicate that these eras are effectively epochs writ large and hence another term could be overarching epoch. The epoch, itself, can be regarded as a period where a particular aspect of the dominant form of accumulation, in the era, becomes crucial.

In other words, any one time, or situation, is much like a Russian doll in which the particular state of affairs is influenced by longer and longer lasting and more and more profound trends and finally laws. At the present time, we are governed by the law of value, which in turn is modified by the laws of decline, involving the generation of finance capital, but that in turn is altered by the particular form of the extraction of surplus value, which may be called imperialism. Imperialism, itself, however has changed in that colonies are no longer held, at least in the old form. Within imperialism, however, the metropolitan countries used the Cold War as an instrument of accumulation for a period of time. Within the Cold War itself, there was a Keynesian welfare state equilibrium maintained from 1945 to 1966/73. Finance capital, in this terminology, is an aspect of decline, while imperialism appears an era, and the Cold War

Nature of Contemporary Crisis

as an epoch. Both imperialism and the Cold War are particular forms of accumulation but the imperialist form is a more generalised working out of finance capital and the Cold War a more particular form, predicated on the further existence of another form: Stalinism.

The long wave was used by Trotsky to stress the particular set of medium to long-term political-economic conditions required for capitalist accumulation. A long wave could cover more than one epoch, in that the downturn could be within one epoch and the upturn within another. Mandel gave particular importance to technological changes, although Trotsky had not done so. Others give even more importance to the so-called endogenous factors. While it is absolutely clear that industry can develop its own internal logic for a period of time, the class relation is crucial. From this point of view, the long wave is secondary to the other categories. It is a result of the operation of the other political economic general forces at work. Putting it differently, technological change has its own dynamic but that dynamic and the actual nature of the technology depends on the course of the class struggle. Mandel appears to stand two ways on this issue.

Another way of looking at the situation is to point out that the decade from 1917 to 1927 may, also, be characterised as the period of the October Revolution during which capitalism had been overthrown and in which the question of its general overthrow remained in the balance. The Stalinist period which succeeded it - from 1927-1992 - was an epoch of reaction, during which forms of containment of socialism were developed and maintained. On the other hand, the present epoch, with the fall of Stalinism and the patent death agony of social democracy, stands in opposition to the whole period from that of 1927 down to 1992.

Since the October Revolution, the bourgeoisie has been compelled to take account of the reality of its overthrow in one country and the possibility that it might lose out altogether. As a result, it has introduced, or accepted, a series of measures ranging from the welfare state and arms economy to a powerful secret police under the banner of anti-communism. The political form is that of formal democracy, first introduced only in the metropolitan countries and then everywhere. This indicates the fact that the October Revolution continues to play a crucial role in the nature of the mode of

production. It does so in that it ushered in a new period—that of transition away from capitalism. Hence we live in a transitional period.

By 1927 social democracy and Stalinism had both consolidated themselves to the point where capitalism had been stabilised and its general overthrow, although technically possible, was highly unlikely without the prior elimination of the forces of Stalinism and social democracy. The period, therefore, from 1927 onwards can, therefore, be characterised as the epoch in which capital has adapted successfully to its own decline and overthrow.

This discussion is now in need of elucidation. We began by arguing that there were a whole series of different epochs, eras, equilibria to be taken into account. Thereafter we pointed out that this periodisation was to be supplemented by another. The two forms of periodisation are complementary in that capitalism in decline becomes a capitalism in internal conflict. As a result, one can characterise the periods by the forms of accumulation as well as by the progress of the class struggle. The whole period from 1917 can be regarded as the transitional period, but within it capital has continued to accumulate. Hence, looked at in terms of the class struggle Stalinism is critical in understanding the period, whereas the Keynesian/welfare state epoch describes a crucial aspect of accumulation, strongly influenced by Stalinism.

The Changed Nature of the Contemporary Scene

As a result of these influences, accumulation has changed its nature compared with the 19th century. Government involvement in the economy is critical in all economies, whatever the rhetoric. Taxation is of major importance for accumulation, and the consumer goods sector is of much greater sectoral importance than in earlier times, largely because of the rise of consumer durables. These, in turn, owe everything to the enormous rise in the standard of living of the working class from 1939 onwards. The permanent military economy, which has characterised the developed world since 1939, was crucial to that rise in standard of living. The use of the hypertrophied military sector with its accompanying anti-Communist propaganda was essential to the stabilisation of capitalism itself. In turn these forms were only possible in a period of a permanent Cold War. In the context of the Cold War, full employment and a welfare state were

Nature of Contemporary Crisis

sustainable options to delay any conscious working class demand to move to socialism.

Full employment and the welfare state, however attenuated in the United States, have changed the nature of modern capitalism. Sections of capital require these features. The enormous growth of the pharmaceutical companies and medical engineering companies, to take one obvious example, has been entirely based on the growth of modern mass medicine. In this context (though not in others) there is only a marginal difference between a national health service as in the UK and Canada and an insurance based health service as in the United States as both are predicated on the ability of the majority of the population to pay for the drugs or medical treatment. Industrial companies are heavily dependent today on government controlled orders for military goods and infra-structural equipment. In most countries the government owns, controls or influences major sectors of industry. Even where there has been extensive denationalisation, as in the United Kingdom, the denationalised industries remain controlled by government bodies in various ways, whether through a regulator, who influences prices and so profits, through the regulation of competition, through the holding of the so-called golden share in the company or, in some cases, through the continued holding of a substantial shareholding. As a result, modern industry needs both the mass consumer market and government demand, not to speak of government subsidies.

The example of the United Kingdom is again instructive in so far as government failure to support industry led to the destruction of that country as an industrial power. It continues to have important industrial sectors such as pharmaceuticals, military equipment etc. but it no longer has an indigenous car industry or a major machine tools industry. The British ruling class effectively preferred to lose its industry than make a further retreat before its working class. It transferred deeper into finance capital, transferred assets abroad, and relied on oil production to deal with its balance of payments problems. While the UK could take such an option, global capital cannot do so. Even the UK could not maintain a neutral stance to its industrial decline and by 1996-7 it had given very substantial government grants to Japanese, Korean and American industrial firms.⁵ It was effectively too late to support British capital itself.

⁵ *Observer Business Review* 19th January 1997

What are the technical socio-economic consequences of this recapitulation of the socio-economic nature of the post-war period?

The Changed Nature of Crisis

In the first place, it means that the inherent overproduction of department one goods, i.e. those associated with producer goods, has been mopped up in a series of long-term solutions. These include the following:

1. the military sector
2. a specific regional/national division of labour over the globe, in which Germany, the United States and Japan have established pre-eminence in the machine tool sector, while third world countries remain importers of department one goods and other metropolitan countries are reduced to the status of subordinate industrial powers.
3. With the rise of mass consumption there has been a blurring of the division between departments one and two. In particular there has been the development of such consumer durables as automobiles, trucks, computers, communications equipment, housing and other items.
4. The growth of consumer durables themselves has meant that the organic composition of department two has been compelled to rise to the point where in many cases it is little different from the corresponding ratio in department one.
5. The growth in the organic composition of capital over the society has meant that long-term investment has increased in importance and together with it the importance of "planning" such investment. A subsidiary aspect of the growth in size and importance of investment has been the massive growth of research units over the economy. These two aspects of the post-war economy have led to a corporate need for stability. More important than both is that such corporations are enormously powerful and their needs are supported by their workers supplemented by the research workers or intelligentsia in the wider community.

All of these factors lead in one direction. They mean that both the bourgeoisie and its governments, which must have a degree of independence in contemporary circumstances, have ensured that

Nature of Contemporary Crisis

disproportionality between departments one and two does not develop into threatening proportions for the global economy as a whole. Particular countries, regions and firms have been sacrificed and that fact has had its own importance.

In the second place, underconsumption has been similarly controlled. The welfare state, however attenuated, has ensured a minimum level of demand throughout the period and as illustrated above it has even ensured a rising level of demand in certain products, such as drugs. The rise of the layer of a society, best described as highly skilled white collar workers, who have enjoyed more or less permanent employment has itself created a sector of stable demand. The tendency for department two production to exceed demand has also been partially met with the widespread use of financial instruments to permit an extension of booms. Subsequent problems in the financial sector have been nationalised.

This only leaves the question of the falling rate of profit as the underlying source of crisis in the present time. There is an empirical question here. I would, however, argue that profits today are internationalised and calculation at this level requires enormous resources. Assuming, however, that value statistics could be fully worked out and they showed that the rate of profit was falling, we would still be left with the question as to the source of that decline.

The Falling Rate of Profit Reconsidered

There has been much discussion on the question of the falling rate of profit, with various viewpoints put forward. Marxists are often embarrassed by the charge of dogmatism thrown at them if they accept the theory. Indeed a number of Marxists have been dogmatic exponents of the viewpoint. Stalinists like Maurice Dobb accepted the argument on a dogmatic basis. Much confusion has resulted, especially as crucial Marxists as Lenin, Trotsky and Luxemburg appeared to have little time for the argument. The question of a declining rate of profit and its importance is twofold, as has frequently been pointed out. There is the long-term decline and the short to medium effects.

It is hard to be a Marxist and not accept that the rate of profit must decline over the long-term. Once the law of value is accepted, it automatically follows that any rise in the organic composition of capital (c/v) leads to a decline in the rate of profit, if the rate of surplus value is constant. The problem involved is that it is an equally automatic consequence of the rise in the organic composition of capital that productivity must rise. This has two opposite effects. The long-term result is that value will tend to zero as productivity reaches the point where machines make machines or man-made instruments make further generations of man-made instruments. The amount of living labour needed to operate dead labour declines and hence the value of dead labour itself declines, ultimately to zero. Clearly under these circumstances profit will tend to zero, since there is no one to exploit.

Of course, there is a possibility that those owning capital will extort a monopoly rent from consumers, so introducing an artificial pricing system in the process. In that case although surplus value has tended to zero, profits remain. Since this extreme implies that everyone would be outside productive labour, it would be hard to see how such a society could survive for very long. This is, of course, the extreme situation. It is not really a question of the ending of profit under capitalism, since such a situation is unlikely to arise, but of the tendency in that direction. In that respect, it is hard to gainsay the very obvious rises in productivity over the last two centuries and in particular the rise in the last 20 years.

The other and immediate effect, of a rise in the organic composition of capital, is that relative surplus value would rise. In other words, wages would decline as a proportion of added value. Hence the rate of surplus value would tend to rise with the rise in relative surplus value. Furthermore, such a rise in productivity would also lead to a decline in the value of the components of constant capital itself, so exercising a negative effect on the rise in the organic composition of capital. Profits, in other words, would tend to rise. Under normal circumstances, however, this rise in relative surplus value is limited by one of the effects of the rise in productivity - the reduction in quantity of surplus value consequent on the decline in the number of workers employed in productive industries. In other words, provided there are no other changes, the rate of profit would tend to fall over time but it would tend to rise in the initial stages. Given all the interrelations involved the emphasis must be on the long-term. It is

Nature of Contemporary Crisis

evident that over the very long-term, as argued above, value tends to zero, as machines replace workers, and hence the rate of profit tends to an absolute zero, as it were.

Against this argument it might be pointed out that constant capital might decline relative to wages, even if the number of workers itself declines. If there are no workers there is no value and constant capital would itself tend to zero. Hence we can get a position before this happy event where constant capital is declining but the number of workers required, or more accurately the number of labour hours worked declines less fast than the decline in constant capital. In such an instance the rate of profit can rise. It is easy to think of examples and conditions under which this can be true. Social democracy itself creates these conditions in that it prevents workers being fired and slows down the introduction of new technique. In principle it is possible to imagine the case where the constant capital involved declined because the raw materials required declined in value, for whatever reason, or where the machinery required was replaced by new techniques with less value. In the former case, plastics can replace timber and steel, whereas in the latter case, computerised typesetting and desktop publishing have replaced linotype typesetting and they are much cheaper. It is these capital saving examples which are adduced to refute the tendency of the rate of profit to fall. They are, of course, typical of particular epochs or of periods of equilibrium within those epochs. In the 'golden age' of social democracy from 1940 to 1973, conditions favoured capital saving equipment, given the impossibility of downsizing plants. Once the period ended, however, downsizing became the managerial fad. The organic composition of capital rose rapidly as the number of workers per unit of capital quickly declined. At the same time, the barriers to the introduction of new technique fell and the value of capital equipment rose. It is instructive to note the reason why this should have been so.

In general, technological innovation tends to raise productivity and hence 'cheapen the elements of constant capital' as Marx put it. At the same time technological innovation leads to the formation of larger aggregates of capital in two ways. This occurs through the simple processes of the concentration and centralisation of production. This involves both the dismissal of redundant workers and the technical merger of forms of production. Thus, to continue with the example of printing, the process of

typesetting, photography, the formation of plates, the printing machines, the cutting machines, and the binding machines can all be integrated. The full integration of these processes is not yet available but that is clearly where the production of books is headed. While the value of any one part of the process has declined the value of the total in relation to the hours worked has clearly risen above the former average.

There is very obviously a second process at work, if we take the example of the computer chip industry. The introduction of the personal computer involved a decline in constant capital relative to the mainframe. In fact, however, it also led to the rise of the organic composition of capital in practically all occupations involved with typing, information gathering and processing. In those sections of the economy, the real price of the initial form of the computer did not apparently rise but the computer itself grew in its facilities. Starting as a calculating machine it came to embrace word processing, data storage and retrieval, photography, movies, cartoon films, sound reproduction etc. and so needed the necessary software and hardware. Although the different parts have declined in value the new instrument is growing in value relative to the number of man-hours that workers need to spend working with it. Whereas Intel or memory chip makers required relatively less capital to begin operations, today the capital cost of ever-new chips is increasing astronomically. The chips themselves are ever more powerful permitting the computer to take over more branches of production. As they are mass produced and their capital cost repaid, their prices sink to trivial levels.

The point of this example is that the constant capital is still showing an innate tendency to directly increase in those sectors that are relatively new. At the same time, the increases in constant capital so involved can also embrace the forms previously mentioned whereby the addition of previously disparate processes creates large aggregates of capital in relation to labour.

Laws of political economy may never show themselves directly. They may remain embedded in the essence and only have an effect on the concrete reality through their operation on other laws or tendencies. Hence the rate of profit may decline but actual profits may rise because the course of the class struggle has dictated that result.

Nature of Contemporary Crisis

One way out of a decline in the rate of profit is imperialism, whether through direct colonisation or through the use of finance capital, IMF and other instruments. The fact that half the profits on the US and British stock exchanges come from overseas is some indication that the respective ruling classes need to supplement their profits. Another solution is to hold down or decrease wages whether absolutely or relatively. Again, real wages have been static or declining in the United States, Sweden and elsewhere for a quarter century. Social democracy has produced the paradoxical effect of preventing a rise in the organic composition of capital through nationalisation and full employment, which have tended to make dismissals costly and hence the replacement of fixed capital even more costly. Workers have thereby been protected from unemployment. As a result, the rate of profit has been more insulated than it might have been under periods of more direct capitalist competition.

Another form used to raise the rate of profit has been the dichotomy between monopoly and small business. In the latter sector, the superexploitation of the workers and often the working employer raises the rate of profit, which, in turn, is frequently creamed off by the monopoly supplier or the monopoly purchaser or both. In the case of the modern family farmer, he is usually subject to the monopoly demands of the company, which supplies his inputs and takes his outputs. Indeed it is often the same company. The organic composition of capital in these instances can be kept lower than would otherwise be the case. At the same time, the workers in small businesses are constrained to moderate their wage demands in case the business is bankrupted. Capital, therefore, makes crucial gains from the small competitive and dependent sector.

In other words, one could argue that the rise in the organic composition of capital has necessarily caused a decline in the rate of profit but the real issue is the way in which it has been absorbed within the economy in a particular epoch. It is there that we have to look in order to determine both the fundamental nature of the epoch and the particular equilibrium within that epoch. In the final analysis, whether the rate of profit actually declines is entirely dependent on the course of the class struggle. Where the ruling class establishes a political and economic advantage over the working class, capital can increase the reserve army of labour and so the rate of surplus value and, other things being equal, the rate of profit. Whether wages

decline in real terms will be dependent both on the nature of the rise in productivity and the particular state of the class relation. It is this political-economic context then that is crucial. That context will determine not only whether there is a decline in profits but also whether it has any significance. After all, a decline in profits does not necessarily lead to a decline in investment or a rejection of workers, unless the capitalist class has better alternatives. A high rate of profit that is reduced to a medium to high rate of profit is no tragedy. It is only where investment leads to negative profits that there is a clear choice.

There is another aspect of value, which arises out of this discussion. If there is a tendency for the organic composition to rise then two non-value consequences appear to follow. One is that the socialisation of production and so its integration must be continuing apace and the second is that real prices ought to be declining, as the value of the individual commodity declines. In other words, the classical contradiction between the socialisation of production and the ever-smaller numbers of those who control the social product is proceeding apace, with all the necessary consequences that follow from it. Of course it will be argued that the divisions between mental and manual workers, among ethnic groups, between producers and consumers, skilled white collar workers and less skilled workers, the growth of home working, the decline of the production line etc. all negate the socialisation of labour. Superficially this is true.

On the other hand, the interconnection among all the elements of the modern economy are being tightened not lessened. The extreme of the atomised home worker operating on a computer linked by modem to the factory or institution only shows how even someone working on an island in the North Sea or the Pacific Ocean can be tightly bound into modern production. Although such an isolated worker cannot have direct contact with other workers that does not mean that the person cannot have easy correspondence with such workers, a correspondence becoming easier all the time with e-mail and the rapid decline in telecommunication costs. Unions must inevitably catch up with the modern forms of integration. Such workers have a degree of independence and control over their conditions of work denied those on the institutional premises, which can make them more conscious and active than others. Obviously there are disadvantages but I have taken the extreme case to illustrate the larger

Nature of Contemporary Crisis

point that the movement from manual to white collar working does not imply less socialisation. It implies more profound linkages in that the division of labour is tighter as opposed to a division of labour in which workers are physically linked.

While these overall processes are observable, they are proceeding more slowly and in such a staccato form that we have to conclude that there must be very large deviations between price and value. For a non-Marxist this would be observable in the very large deviations between costs and prices over a large range of products. It is true that modern corporations have been adept at investing their surplus value in marketing forms in order to mask that decline and it should be noted that this extra surplus value arises from monopoly rent and not from a rising rate of profit.

The wide deviation of price from value makes for a very unstable situation. For an orthodox economist, brought up on supply and demand, there is no problem. For a Marxist, however, money cannot make money. If there is little productive labour-time involved then prices must ultimately be very low. The expenditure on unproductive items like advertising or the exorbitant salaries of the executive managers increases the tendency to underconsumption. In this respect, the Baran/Sweezy argument is correct, even if it was not formulated in classical Marxist terms. There is, however, an additional aspect involved. Where competition hardly exists, then waste may be unlimited, but although competition is neither perfect nor very great, it continues to play an important role within the economy. Individual firms may dominate production and remain in that position for decades but they have to take account of competitors real or potential. The consequence is that price deviates substantially from value for monopoly/rent reasons but it is an artificial price which might collapse under specific circumstances.

The picture that is conjured up is one in which the whole system is operating on artificial respiration, which might be cut off, at any moment. Any particular sector of the economy might find its prices collapsing. Clearly so-called commodities, i.e. raw material prices, are subject to wild swings at the present time and particular industrial products like computer chips can be assimilated to a similar category. On the other hand, car prices have been remarkably stable in these terms. The reason lies in part

in the nature of the sector for which the product is made. In the former instance the goods are essentially producer goods while in the latter instance they are in large part consumer goods. In the latter instance, much of the price is subsumed by the wholesaler, retailer, and marketing departments. This is truer in the United Kingdom than in the United States and hence the price of an identical car is much higher in the United Kingdom, either absolutely or in relation to income. Where unproductive costs like marketing in its numerous varieties become standardized it requires a social change to remove such costs but such changes are not impossible, even within capitalism.

To sum up this section, I have argued that that the rate of profit must tend to fall over time but the rise in productivity which underpins its nature can also permit a temporary rise in the rate of profit and underpin a long-term monopoly/rent situation. This is the modern situation. It is highly unstable because there is a permanent 'gravity' type effect. The law of value, comparable here to the law of gravity, demands that prices be pulled into line creating permanent instability. The system does not go into free fall because it is able to organise itself through governments and individual firms to maintain prices and profits. In so doing, it creates and reinforces problems of underconsumption and disproportionality and it has been around such problems that the post-war economy has been controlled in relation to the class struggle.

Disproportionality and Underconsumption

I have argued that the effects of Stalinism-Cold War and the growing socialisation of production have limited the impact of the forces of underconsumption and disproportionality but that the class struggle is critical in understanding their movement as well as that of the rate of profit. At the same time, the same influences, operating on the rate of profit, also govern both disproportionality and underconsumption, though in different ways. The factors adduced above condition the nature of the class struggle.

The militarisation of the economy produces a militarisation of labour and hence a disciplining of the workforce which prevents class action. Commodity fetishism is replaced by a decadent militaristic ideology - anti-

Nature of Contemporary Crisis

communism - which has been all the more powerful because it contains a very strong element of truth. Stalinism was indeed monstrous and the United States was far preferable to any citizen of the Soviet Union, who could make it to that country. With no apparent alternative system and with systemic opponents looking like agents for a monstrous foreign power, working class organisation was necessarily handicapped.

This class relationship, which might be described as the historic Stalinist compromise, meant that the ruling class maintained full employment and a welfare state in return for working class acceptance of capital's right to rule. The reduction in surplus value consequent on these concessions was offset by the controlled nature of the trade unions and working class organisations in general. That was the true historic compromise of the twentieth century.

This relationship has had different forms. Even Fascism was compelled to introduce its particular form of that compromise. It protected the "national worker" in return for his total subordination. The Stalinist countries were not capitalist but they too participated in this compromise. There the worker was permitted a higher degree of control over his own labour process in return for surrendering control over the surplus product.

The reason for the similarity across systems and political forms of the same system lies in the nature of the epoch. The overthrow of capitalism in 1917 was itself overthrown in the twenties but the threat of further overthrow remained. The solutions adopted in the thirties of fascism, world depression and intensified imperialism were not sustainable over the long-term. Nonetheless, democracy had been extended to more men and women in this period. Concessions to the working class had to be made, whether in terms of the New Deal or full employment through militarisation in Nazi Germany. The war-post war solution was, therefore, the only possible method of stabilising the capitalist system. It amounted to an historic stalemate between the classes, in which the ruling class accepted that it had a series of duties. They had to provide for the education, health and old age of the working class and they had also to provide employment under human conditions. That, however, was only possible as long as the working class accepted its own situation as workers under capitalism. That, in turn, was guaranteed by the social democrats and Stalinists. Of the two formations

the Stalinists were the stronger and indeed the pre-condition for the other. These two political movements disciplined and controlled the working class were reinforced by the economic results of the historic agreement that they negotiated. Nationalisation allowed the trade unions in the nationalised industries to be much stronger than they had been in the private sector. As the *Economist* noted, privatisation in Britain was meant to destroy that advantage.⁶ Inflation required workers to belong to unions, unless they were going to accept that their wages would decline over time. Finance capital lost its advantage to industrial capital, which therefore led to a massive industrial growth in the developed countries with the standard of living rising far more in 30 years than it had done in the previous two centuries. The growth in industry itself changed the nature of capital in that the process of socialisation of labour proceeded much more rapidly than previously. It meant that capital itself became more interested in having workers capable of working at high levels of productivity. Capital, therefore, preferred to have a stable relationship with the working class. This could be accomplished through an incorporated union structure, typical of all the West European countries, or through a form which simulated some of the results of that structure, as in IBM. The trade unions did not have to be present in every enterprise, or even every country, for the necessary agreement to be made.

This equilibrium, born out of a Stalinist counter-revolution, could not last. It presupposed growth, stability, full employment, education, better health provision and pensions, all of which gave the working class the self-confidence to demand both more of the surplus value produced and more control over that surplus value. As long as Stalinism controlled the working class, in whatever direct or indirect forms, there was no problem until that control was challenged in the sixties, both in the Stalinist bloc and outside it. The result was working class action, that began to threaten both profits and capitalist control. By 1973, the ruling class had decided to end their part of the bargain.

During the eighties they established a new equilibrium in which finance capital was restored as the dominant form of capitalism and in which there was a partial restoration of the reserve army of labour. The rear-guard battles of the working class were sufficient to prevent a full restoration of

⁶ 'Privatising Western Europe', *The Economist*, London, 6th July, 1996, p64.

Nature of Contemporary Crisis

the reserve army of labour and the replacement of industrial capital by finance capital in the same way as before and after the First World War.

In their defensive struggles the workers were in fact often supported by the industrial sector and particularly by industrial managers. This was no accident but a reflection of the changed nature of control over surplus value. The socialisation of production has reached a point where owners have to delegate the functions of management to professionals, who, in turn, have a dual loyalty—to their employers, who often give them a share of the surplus value, and to themselves as sellers of labour power. In turn, this has meant that social democratic political parties, such as the British Labour Party, find support among industrialists, who need allies against the predatory section of the modern capitalist class, finance capital.⁷

I can summarise the last section as arguing that the forms of decline and the particular epoch and equilibrium refract the classical forms of crisis within that epoch. In particular, the nature of the epoch has brought the subjective to the fore and the special subjective role of the ruling class in relation to the class struggle. The working class has to be subjective in order to promote its interests. Its problem is not that it is not conscious of its interests but that Stalinism and Social Democracy have obscured those interests. Under these conditions the ruling class decided that the old post-war equilibrium had broken down and it needed to re-establish a new more favourable equilibrium. It attempted to do so after 1973 and believed that it had reinforced its anti-working class shift after the fall of Stalinism in 1989. In decline the ruling class is subject to its own delusions, which in earlier periods corresponded more closely with reality. In this instance, there was little or no correspondence. The fall of the Soviet Union did not mean an end to working class demands for an alternative system. It did not mean that Stalinism would be succeeded by capitalism and it has not meant that the USSR has become a vast new market and source of cheap raw materials for predatory capitalists.

⁷ The British Labour Party obtained support from the managing directors of major industrial companies in its campaign to win the 1997 British election. *Observer*, London, 19th January 1997, p1.

Stalinism and the Destabilization of Capitalism

Instead, capitalism has been destabilised. The old epochal forms of dominance have been destroyed and the post-1973 equilibrium has broken down. The guarantor of stability in the immediate period after 1918 was social democracy. That was supplemented by Fascism, War, and the Great Depression in the thirties. The United Kingdom used its imperialist holdings to maintain its own stability, as well as the stability of a number of other countries. The defeat of Fascism, localisation of wars, decolonisation and an almost continuous boom until 1973 then marked the post-war period. The old forms of equilibrium were, therefore, replaced by the Cold War, with its shift from finance capital to industrial capital and the consequent massive rise in standard of living, and levels of employment, all crucially dependent on the direct forms of control over the working class exercised by Stalinism and a weakened social democracy, now junior to Stalinism.

By 1973 both Stalinism and social democracy could no longer play the role of world policemen, without suitable assistance. Hence American and British capital shifted from industrial to finance capital yet again. As a result, the new equilibrium was based on slow growth, with rising unemployment, stagnant or declining wages and growing insecurity of employment together with massive rewards to those who were able to turn on their fellow workers and 'manage' them, so leading to a huge growth in income polarisation. The working class was divided into a series of sections. One, which could be more properly called part of the surplus population, was permanently unemployed and often permanently drugged, another section which was very poorly paid to the point where they received less than the value of their labour power, a section with stagnant or declining wages, another section with moderately rising real wages and yet another section with rapidly rising real wages. Increasingly all sections began to suffer ever higher levels of insecurity. Nonetheless, this equilibrium continued to be underpinned by the Cold War in that the levels of unemployment were limited, growth continued albeit at a slower pace and in some countries, like the United Kingdom, the majority of those in employment enjoyed a rising standard of living. The arms industry continued to flourish, and indeed, under Reagan, enjoyed an Indian

Nature of Contemporary Crisis

Summer. Declining social democracy and Stalinism could no longer hold the working class but they did not need to as the old forces of capitalism, detailed above, were called to play. Instead they played a crucial if supplemental role. They served to prevent the formation of a more militant working class. They siphoned off potential militants into meaningless activity and drugged them with a dead ideology.

The end of Stalinism is a major turning point in the history of capitalism. The ruling class has lost the cohesiveness that it displayed during the Cold War, and it has lost its former means of control over the working class. Part of the decline of cohesiveness is showing itself through the rise of criminal elements in the bourgeoisie and another part has shown itself through the open divisions among finance capital, industrial capital and small capital. The economic and political control exercised through the arms economy can no longer be exercised in the old way with the result that the economic problems appear more intractable. With the end of Stalinism has gone the basis of social democracy and the concessions made to the working class. Finally the parliamentary system itself is cracking. All these features add up to increasing instability within the capitalist system over the medium to long-term.

In the short term, capitalism appeared to be stabilized by the removal of communist parties and the necessary decline of parties and indeed states, like South Yemen, dependent on them. Furthermore, the apparent disappearance of a socialist alternative in the overthrow of Stalinism in the Soviet Union and Eastern Europe, combined with the elimination or attenuation of Stalinist, semi-Stalinist, Stalinist dependent parties, their newspapers, journals, bookshops, seminars and personnel has meant that the capitalist media can argue that socialism has failed or is utopian.

The triumphalism which followed the fall of the Berlin Wall has faded, however, with the failure of the transitional process in the former USSR and the emergence of Eastern Germany as a crippled if united part of Germany, totally dependent on its Western section for its annual 150 billion DM handout. The fall of Stalinism has not provided a vast market for the West or even a source of cheap labour, as had been expected.

Nonetheless, the long - term instability induced with the fall of Stalinism has been balanced in the short term by the absence of any real alternative. The youth are not gripped by any left wing theory and there is no alternative party. Individualism seems to be the only game in town. Workers are disillusioned by the absence of an alternative political form and of a modern theory. No one needs old ideologies dressed up in new clothes with propagandist words implying their newness but belying their ancient, tired and ruling class heritage. The new Blair line inside the British Labour Party falls into this latter category. While having nothing new to say, the New Labour Party claims to be modern, 21st century and adapted to the modern world, unlike the Old Labour Party and anyone else on the left. In fact, its programme, insofar as it has one, preserves the market, the capitalist class, wage-labour and even the polarisation of incomes characteristic of the last twenty years. One might ask whether such a party has not adopted Marx's description of capitalism and accepted it as the best of all possible worlds. In truth none of the ruling class parties (and the New Labour Party is one of them) have had anything new to say. The reintroduction of monetarism is simply a return to pre-Keynesian times. Those aspects that are new are subsidiary or technical forms.

These old forms dressed up as new packages do perform a function. A despairing population might seize on the least bad alternative, given the absence of any genuine alternative. Packaging can then play a role in the self-deception of a working class betrayed so often, that it prefers to take what it can get. There appears to be no hope in the present time. It should be noted, however, that the Cold War and Stalinism harnessed this despair and the disappearance of these two latter forces removes a powerful if longer-term force. Whereas the end of Stalinism has meant that some sections of the working class and peasantry, particularly in the third world, regard the end of Stalinism as the defeat of socialism, the removal of the controls associated with it has made and will make an enormous difference to consciousness.

If the material aspect of the Cold War was one of providing a market, balancing the economy and raising the rate of profit, its non-material aspect was one of discipline. In fact, most workers have accepted factory and more general economic discipline under conditions of open warfare. Wages and conditions of work have been lower than they might have been

Nature of Contemporary Crisis

in peacetime conditions. The Cold War functioned in a similar way to a hot war, particularly under conditions where there were regular if smaller hot wars. This was particularly true of the United States. This discipline meant that workers saw the Soviet Union as a real enemy threatening their livelihoods. Communists could be seen as little more than infiltrators and any leftists could be assimilated to the same position as Stalinists.

Conclusion and Summary of the Argument

I have based my argument on the view that capitalism is in decline because the law of value itself is in decline. This is in part through the socialisation of labour giving rise to more organisational forms such as monopoly (oligopoly in non-Marxist terms), nationalisation, governmental controls of various kinds, in part through decline of labour in production raising productivity to levels where costs become minimal, and in part through the redirection of the economy to finance capital, which acts as a parasitic organisational mechanism.⁸

The consequence is that the entire system is now resting on the edge of a precipice. The more it grows the greater the gap between value and price and so the greater the directly political/organisational nature of capitalism itself. The obverse of this statement is that the rate of profit is in decline but its effects have been channelled into forms tolerable to capitalism. The capitalist class has consciously established control over the economy, to the extent that it can and remain capitalist. Within that context the capitalist class has used different forms, but whether they are more directly governmental, as in the case of nationalisation, or less direct as in the use of the central bank, with informal governmental directives, the economy remains centrally controlled.

It is in that context that the militarisation of the economy has been crucial. The Cold War in its turn has been the linchpin of the entire global economy since 1945, permitting the disciplining of the workforce, the vast expenditure on military waste, the corruption of the state sector in its interrelations with private enterprise, military contractors in particular, and

⁸ For a fuller discussion of questions of decline and finance capital see my previous articles in *Critique* 16 (finance capital), 17 (finance capital) and 26 (decline).

the consequent relatively high growth rate combined with relatively low unemployment. In turn, the workers of the developed countries have been given social democratic concessions on pay, health, education, pensions, holidays etc. which have maintained the growth rate and changed the nature of production itself. The contradiction in this situation lay in the need to maintain profits while expanding production, conceding limited aspects over the control over production and raising pay. In 1973, the capitalist class gave up the uneven struggle and shifted to finance capital, so overturning the post-war settlement. Growth declined and unemployment rose, with all the inverse consequences for the welfare state. In turn, demand necessarily turned down or remained static. Investment went partially to countries with lower wage rates and worse conditions of employment, in this period. Throughout this period down to 1989, the Cold War continued. Under Reagan military expenditure increased so fuelling a worldwide boom. Its limits were reached when the United States found itself with twin large deficits. But the end came with the crash of Stalinism. There was no longer any basis to maintain military expenditure or any of the forms of expenditure used to contain the USSR.

The October crash in Wall Street came because the epoch had ended and governments immediately pumped money into the system but it only staved off the problem until 1989, when the situation had grown considerably more dire. The growth of unemployment, and rise in negative growth rates, which followed, has not ended. Japan and Western Europe remain mired in high unemployment, low growth rates, and in the case of a number of countries like Italy, Belgium and Greece very high levels of public sector debt exist in relation to gross national product.

The fiscal crisis of national states has no solution as long as growth rates remain so low. Although France, Germany, Benelux etc. have managed to get down close to the 3% public sector deficit levels required by the Maastricht treaty, it has been at the expense of rising levels of worker discontent. In other words, they cannot continue to squeeze public sector pay, raise real levels of taxation and reduce public expenditure. The only way out is to raise public expenditure and inflate in order to raise the growth rate, which will simultaneously decrease expenditure on welfare and increase the level of taxes collected. As they cannot do this without increasing the strength of the working class in employment, the capitalist

Nature of Contemporary Crisis

class can only proceed very warily. At the same time, if they do not proceed in this manner they risk a cycle of increasing austerity with a recession and quite probably a true depression.

The capitalist class treads a tightrope. In the long run, the reason for the tightrope lies in the stalemate between the classes, which has lasted since the defeat of the Russian Revolution. The conditions for that stalemate no longer exist. Hence many see the polarities of absolute defeat and absolute victory and most on the former left probably incline to the view that victory is utopian and defeat certain. This analysis is attempting to show that the ruling class has no way out except a direct confrontation with the working class or a real depression of a kind to compare with 1929, even if it cannot be identical, given the certainty of government intervention. In the next issue I will take up this issue with particular relation to the interaction of the end of Stalinism with the contradictions of finance capital.