

LECTURE 17

The Crises of Capitalist Development

THE BOURGEOISIE cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form was on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind.

Karl Marx and Frederick Engels,
The Communist Manifesto, 1888 (1848), §1.

LONDON: The roller skating craze has spread all over London from Whitechapel to Mayfair. Everybody seems to have gone “rinking” mad from duchesses to costers. Dozens of rinks have sprung into being like mushrooms, but the biggest and most important is in an enormous structure called Olympia. All day long and until mid-night it is crowded, the average daily attendance being more than 10,000. It is interesting to see how democratic English people can be when they are victims of a fad. At these rinks grand ladies and shopgirls are all on the same level, both socially and physically, as they glide around. There is no constraint or embarrassment on either side, but they would probably have spasms if they met in a ballroom.

1909: Roller-Skating Mania, published in
‘In Our Pages’ *International Herald Tribune*, March 1, 2009

As Marx and Engels noted capitalist society is by its very nature the subject of perpetual upheaval, change, and crises of all kinds: “Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones.”

For the purposes of this lecture I am going to focus upon four important areas in which the crises of capitalist development manifest themselves. Of course, you could have other divisions and other ways of figuring them, but I am opting for these features, which I think are endemic, *or sewn in*, to the nature of capitalist relations:

1. The perpetual crisis of *profitability*.
2. The spontaneous tendency of market relations to call into existence *natural monopolies* and *municipal* and *nationalized enterprises*, which in turn, pose a

threat to competition and to the operation of the market that, brought them into existence.

3. The crisis of *legitimacy* which results in the extension of democracy and intensifies the contradiction between equality before the law, on the one hand, and the private and wholly unequal ownership and control of material resources, on the other.
4. The crisis of *insecurity*. Because of the nature of capitalist relations and the perpetual revolutionizing of technology, and the corresponding reorganization of the workplace, individuals in this kind of society are unable to rely on the acquisition of specific skills or specific sets of social relationships. The introduction of new technology, which reorganizes the workplace, and the demands of rapidly changing labour markets, often render individual security and a sense of personal stability fleeting and unreliable.

THE CRISIS OF PROFITABILITY manifests itself in periodic recessions in which the existing values of manufactured goods, raw materials or commodities, and services fall, compelling people throughout the economy to reassess the value of their goods and property. *Existing capital values are literally destroyed in the process.* Shares might lose sixty per cent of their value overnight or actually become valueless. Similarly, apartments, houses, office blocks, shops, warehouses, vehicles of all kinds, find themselves losing a quarter or a third of their value within a month or two. Consequently, income from commercial and domestic rents becomes elusive and unreliable, savings produce little or no returns and shareholders' dividends dry up. This failure or crisis of profitability results in large-scale unemployment as capitalists find it increasingly difficult to hire or retain workers when they are unable to turn a profit.

Marxists have often attributed these recurring crises to what they refer to as “the tendency of the rate of profit to fall”. This they think is bound up with “the rising organic composition of capital.” What they mean by this is that with every new development throughout the entire history of capitalism the amount of fixed or dead capital in buildings, equipment, and machinery needed to employ a given number of workers has increased. The ratio between capital and labour always grows with more and more capital being required for the profitable employment of each worker. This means that the *rate of profit* has an inevitable tendency (*if a tendency can be inevitable*) to fall.¹

¹ “Productivity is seen as increasing the organic composition of capital, ie a rise in the ratio of machinery to the labour that operates it. Thus the hours of socially necessary labour-time incorporated in the means of production tend to increase, but the number of hours of unpaid labour—the surplus value extracted—does not rise correspondingly, and may even fall.” Jim Kincaid, ‘The world economy - a critical comment’, *International Socialism*, issue 119, June 2008, <http://www.isj.org.uk/index.php4?id=461&issue=119>.

Marx, of course, acknowledged that there were a number of countervailing tendencies, like the creation of entirely new points of production [CHINA], or indeed falls in the prices of capital goods which mean that although more machinery and equipment is being employed, its cheapness could actually lead to a fall in the relative amount of fixed capital used to employ a given number of workers [COMPUTERS].

It is obvious that in the last decade that one might cite the emergence of new sites of production in China or Brazil as examples of forces, which counteract the tendency of the rate of profit to fall. Similarly, one could point to the long-term fall in the prices of computers, telecommunications, and other capital goods, as further examples of important countervailing tendencies.

However, these are highly technical matters for discussion between Marxists² and in their turn may be declared essentially irrelevant by thinkers deploying a range of other economic models and theories.

However, what cannot be disputed is that the given price of a good or service is a somewhat *ideal* notion until it is realised by exchange in the market. It is only at this point that we discover exactly what its price is. Because of this the value of assets which people possess are not set in stone – they are subject to modest or even radical shifts, up or down, as conditions within the market shift. Consequently, capitalist economies founded upon private property, commodity production, and free labour, are inevitably prey to unstable or fluctuating prices.

Because this society is dependent upon credit it is particularly vulnerable when there is a “correction” and prices fall. This is because credit is advanced in anticipation of future production – on the assumption that the collateral, against which the money is loaned, will maintain or increase its value. That collateral might be a house, a piece of land, a vast warehouse, the good name and good will of a business, or it may be *unsecured*, i.e. advanced on the simple assumption that the debtor will remain employed and in receipt of wages sufficient to meet his or her commitments.

It is immediately obvious that if a wholesale “correction” in the price or value of more or less all asset classes takes place and the debtor, whose only collateral was their job, becomes wageless or vulnerable to unemployment, recession or even a substantial fall in economic activity like that witnessed in the nineteen thirties, becomes a distinct possibility.

We are, maybe, on the nursery slopes of such a recession at the moment. The wholesale fall in the value of more or less all asset classes: shares, bonds, houses, land, commercial and retail property, and the corresponding growth in unemployment, are all expressions of the disastrous “correction” in the prices of assets.

² See also Chris Harman, ‘Misreadings and Misconceptions’, *International Socialism*, Issue 119, June 2008, <http://www.isj.org.uk/index.php4?id=462&issue=119>.

Now, every recession has its specific causes and its particular shape and features, and I am, in common with the finance ministers of the G20 and most of the financial research institutes and think tanks of the world, unable to fathom the depth of the present crisis or to give an account in any significant detail of the reasons for its emergence.

However, we can say, that large or small, violent or mild, recessions are an inherent aspect of capitalist society and development. No way has yet been found over the last two or three centuries of functioning without periodic price corrections which have the effect of *destroying existing capital values*, and creating, through this process of destruction, the conditions for a new round of profitable investment. “Boom and Bust”, “Bull markets and Bear markets” call it what you will, rising prices and prosperity followed by falling prices, belt tightening and unemployment, are an inherent aspect of the system – you cannot have capitalism without them.

YOU CANNOT HAVE fully developed capitalism without a strong state either. This is another paradoxical or contradictory aspect of capitalist development. It is a fascinating aspect of the growth of what Adam Smith called “Commercial Society” and what we call “Capitalism” that the emergence of commodity production and of market relations in everything from agricultural produce, to coal, cotton goods, and labour itself, created the necessity of a larger and larger arena for the production of goods and services lying someway outside or beyond the operation of market forces.

The very success of market relations brought about the development of natural monopolies like turnpikes, canals, and railways, which simultaneously both facilitate and disrupt the operation of the market. Water and sewerage systems, schools, colleges and universities, and the expansion of poor relief, all these activities fell in the first instance to natural monopolies or to parish administrations, charities, and churches, then to municipal governments and finally to the departments and agencies of the nation state. No individual capitalist could make money or profits by providing these goods and services, so they must be provided by the state or by charitable or cooperative institutions.

Regardless of the most recent fluctuations in state market relations it is undeniable that as the system has developed so too has the vast infrastructure needed to support commodity production: roads, bridges, power grids, rail networks, education, arts institutions, research into the humanities, science and engineering, healthcare, and the maintenance of the poor, are provided entirely by the state, by charities, or by private providers subsidised and licensed by the state. A huge (and for most of the last two centuries), a growing area of economic and social activity has taken place beyond or outside the sphere of market relations.

This peculiar tendency of capitalism to produce in some sense its *negation* in the form of the municipal, the state, or the charitable production of goods and services, famously led some socialists to believe that capitalism would more or less simply develop itself out of existence. Eduard Bernstein thought that much Marxist analysis was flawed precisely because of this tendency of the system to spontaneously produce

its antithesis in the necessary creation of the public works and the manifold activities of the non-market, non-capitalist sector of the economy.³

ONE OF THE CONSEQUENCES of these developments has been that as bourgeois society has expanded, production and technology have developed in such a manner as to require increasingly skilled workers, not simply skilled *in detail*, in the old sense that craftsmen or artisans were skilled, but also *skilled in general*. Initially, *the skills in general* that workers required were literacy and numeracy. As time has gone on many other skills and attributes have been added, finally resulting in a labour force where most of the population are literate, numerate, can drive, can use keyboards, read a map, use a telephone, distinguish between formal and informal settings and modes of communication, pay close attention to personal hygiene and dress, are articulate and polite, and are capable of interacting well with a range of different types of people.

One of the important consequences of this development has been the gradual extension of democratic rights as workers (from at least 1867) were gradually incorporated fully into society.⁴ The growth of enormous cities inevitably required much more sophisticated means of maintaining the public peace and good order – this process of incorporating the working class fully into society was at least as important as the establishment of permanent police forces, and probably much more important in the long run. With this process has gone hand in hand (over the last one hundred and fifty years) a process in which the mass of the people has become increasingly better educated, more articulate, more travelled, and generally more sophisticated.

The modern working class are not, on the whole, submissive. Working people, by and large, do not defer to employers, managers, politicians, teachers, doctors, lawyers, other professional people, or trade union leaders, with a wide or deep measure of passivity. Much deference has, much to the dismay of some in the professional classes, gradually ebbed away. The kind of hierarchies in which people simply accepted the authority or opinion of those in charge has been seriously undermined. And, this is an expression of the crisis of democracy in which widespread scepticism continues to undermine participation in formal democratic and consultative processes.

The development of the scale and sophistication of capitalist production has called into existence a working class, and lower middle class, which has a level of sophistication and articulacy which corresponds to the needs of the economy. Consequently, the basic need for order and tranquillity in society can only be met by increasing the active participation of the population in decision making: hence the drive towards devolution and the localisation of as many decisions as possibility.

³ Eduard Bernstein, *Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie*, Stuttgart 1899, published in English as *Evolutionary Socialism* in 1907 by the Independent Labour Party, available at <http://www.marxists.org/reference/archive/bernstein/works/1899/evsoc/index.htm>.

⁴ See George Elliott, *Felix Holt, the Radical*. This novel is a meditation upon the struggle for the Great Reform Act of 1832 written and published in the context of the struggle for the Reform Act of 1867 which, for the first time, extended the vote to a substantial number of working class men.

However, these measures inevitably run counter to the myriad decisions taken in the defence of private property and the pursuit of private interests. In every workplace, council and locality in the country this tension or collision between a perceived community of interests on the one hand, and the private interests of capitalists, on the other is expressed with deep bitterness. While, this bitterness and scepticism does not in any serious way contribute to anti-capitalist or revolutionary sentiment, it does hobble the deepening of democracy and undermines or weakens the full engagement of individuals with the goals of the employers, managers and politicians who direct the affairs of society.

Here, we can see that just as with the crises of profitability and the growth of non-market activities, the development of capitalist relations of production have spontaneously produced perpetual crises of legitimacy – they are endemic or ‘sewn in’ to the very nature or fabric of the system.

THIS IS ALSO THE CASE with my fourth and final element, the crises of insecurity. In relation to class relations capitalist development does a remarkable thing – at the same time as it sharpens and complicates class divisions it simultaneously makes them more fluid, or at the very least, much less rigid. Whereas in previous kinds of society movement between one class and another required the formal permission of the guild, the church, the universities, or the royal court, in capitalist societies, all that is required is capital, some remarkable talent, the capacity to entertain, or education, and preferably all four. Consequently, the *nouveau riche* and the *arriviste* have wormed their way in everywhere, tunnelling their way throughout bourgeois society. One need only read eighteenth and nineteenth century English novels to see how advanced this process was – Thackeray’s *Vanity Fair* is a marvellous case in point – a good century and a half before *Big Brother*, Jade Goody or *Wags* made their appearance.

These peculiar class relations contribute to the sense of insecurity by compounding the manifold dissatisfactions which individuals are exposed to, with the idea that, in principal, at least, there is no reason at all why everybody should not rise in the world. In previous kinds of society although there may have in fact been considerable social mobility, the view or expectation that everybody might move up in the world, did not exist. Whereas, in capitalist society, it is the universal expectation that those with *merit* will rise and those without *merit* will at best, stay where they are, and at worst, will fall.

This creates a double tension: firstly, everybody is prevailed upon to work towards achievements and conduct that will merit their rise, and secondly, everybody will tend towards disputing the merit of those with most, and wonder why they themselves have not merited more. The obvious and inevitably consequence of this system is widespread dissatisfaction.

To this must be added, the manner in which technical innovation, perpetually transforms the organisation of the workplace, rendering familiar procedures and practices outmoded and hard-won skills, redundant. For the worker this means that the

capacity to learn new skills and adapt to new procedures becomes a much more important *skill in general* than any particular *skill in detail* that may be acquired. Modern workers must be prepared relentlessly to attend training days and training courses, and endlessly participate in the acquisition of new skills.

If an individual is lax, reluctant, or tardy about this requirement of the modern labour market they are likely to find themselves in less and less skilled and more poorly paid employment or indeed out of employment altogether.

So, in addition to the apparent fluidity and instability of the class relations, individuals are confronted by a mode of production, which constantly makes changing demands upon them in relation to the acquisition of skills and to keeping pace with perpetual shifts in the organisation of the workplace, and indeed of the broader labour market.

TYPICALLY, THOSE ENGAGED in the anti-capitalist movement will tend to focus upon the dependence of capitalism upon the production of profits, upon growth that is thought to damage the climate, and competition that is thought to not simply undermine our capacity for cooperation and social solidarity, but also contribute to the reality of perpetual warfare and wholesale slaughter.

In contrast to these the four areas I have figured as the crises, which are endemic, to capitalism – the crises of capitalist development, so to speak, as:

1. The crises of profitability
2. The crises of the growth of not-for-profit activities
3. The crises of legitimacy
4. The crises of insecurity

The interesting thing about these crises is that none of them appear to be fatal to the system. To be sure, they express inherent contradictions within the capitalist system, but none of them, either separately or taken together, is fatal to the operation of generalised commodity production. Indeed, it is impossible to imagine capitalism without these contradictions – these four points of tension around which the endemic crises of the system coalesce do not in fact constitute its weak points or, taken together, its *Achilles' heel* – they are simply expressions of the system's constitutive structural elements.

This appears to be fully recognised by capitalists, managers, and politicians, within the liberal democracies that have sought simply to manage things as best they can. Consequently, *the crisis of capitalism, the final collapse of the system*, continues to seem as elusive as it ever was.