

FROM THE CPGB's WEEKLY WORKER

What is the Marxist method? Hillel Ticktin looks at the main features.

More dangerous than ever

Hillel Ticktin concludes his series on the relevance of Marxist categories with an examination of the theory of capitalist crisis and its application to the current global situation

To begin with, we must note that the term 'crisis' has been overused to a considerable degree. So much so that it is often not clear what it actually means. Many so-called 'crises' should really just be called downturns, or examples of political/economic instability – or else it may simply mean that the person using the term does not like capitalism.

I understand the term 'crisis' to define a situation in which the poles of a given contradiction have become so antagonistic, so pulled apart, that they cannot interpenetrate. This is the way in which Marx theorises crisis in the fourth volume of *Capital* – ie, the second volume of *Theories of surplus value* – where he describes the way in which the poles of the contradiction stand directly opposed to one another: the pulling apart of use-value and exchange-value, and their derivatives, such as sale and purchase, reaches a point where the logical result is that different parts of the economy can no longer mesh with one another and the economy begins to disintegrate until forms of mediation are established. This, of course, can never be an automatic process,

because underlying it all are class relations and so class struggle.

Distinctions

It seems to me that broadly you can speak about four forms of crisis. The first is the form of crisis which I have just described – a genuine crisis of the system itself. The term ‘crisis’ should really be confined to this phenomenon.

Secondly, people have described more and more regular cyclical movements in terms of crisis. I do not believe that capitalism is simply subject to a technical cycle of movement. In the last 50 or 60 years there have been cyclical movements which have not been crises. Engels in the 1890s spoke of cyclical downturns growing ever more deep. And he was right, of course, in terms of the great depression. Nonetheless, it is important to make the distinction between a genuine crisis and a downturn, which might or might not turn into a crisis.

Thirdly, there is the concept of the ‘long wave’, which is put forward by Trotsky in some detail – a concept which Mandel took up and propagated in his writings on late capitalism. I think there is a lot to it.

Fourthly, in my view, there are the crises induced by the decline of capitalism. They arise from the increasing difficulty of finding forms of mediation. This is often referred to as the ‘epochal crisis of capitalism’, or what the Stalinists used to call the ‘general crisis of capitalism’.

The crisis proper has to be understood as composed in the first instance of a triggering or

immediate cause, which is normally accidental, such as an oil price rise or the collapse of so-called sub-prime mortgages. But underlying the trigger you find the fundamental causes of crises themselves: underconsumption, disproportionality and the falling rate of profit. These constitute a totality within the system, which is normally held together by finance capital. At the present time the evolution of finance capital has become highly extended, due to the tremendous over-expansion of credit. This can last for some time, but eventually the bubble must burst.

The present day has to be understood in terms of the switch to finance capital in the 1970s, followed by the massive downturn of 1981, with Reagan, in turn, vastly increasing expenditure on arms, using the excuse that the west had to squeeze the USSR. This excuse was nonsense – the USSR was consistently in a defensive posture. But Reagan's action worked. The economy did take off. By 1986 some eight percent of GDP was being spent on arms.

In 1987, however, came the stock market crash, a genuinely frightening one, the first of its kind since the great depression of 1929. This crash was obviously linked to the ending of the cold war. Greenspan, who always understood that the system could go down, intervened by offering the market total financial support. But of course the underlying contradictions remained. In 1989 there was another downturn, from which Japan in terms of its deflationary impact has never really recovered.

Despite a subsequent upturn in the global economy in 1992–93, sustained through the manipulation of interest rates, the end of the

cold war was decisive in terms of the fall in arms expenditure, which by 1997 had sunk to three percent of GDP. There were now huge levels of surplus capital, swinging from one thing to another – Asia, Russia, new technology, all of which crashed in their turn. This situation was partially alleviated with the Iraq war and another steep rise in arms expenditure.

Nevertheless, there remains a fantastic overhang of surplus capital, for which there is no solution. There is nowhere to invest all the capital at a reasonable rate of return. Consequently investment takes an ever more abstract and unproductive form. That is where we are today.

Underconsumption

Marx discusses crisis in the first volume of *Capital* in the chapter on accumulation. He describes how the economy grows, the reserve army of labour is progressively depleted, wages increase and consequently profits decline. The capitalist class then replaces workers with machines and workers are fired, returning to the reserve army of labour. Profits go up. Workers are controlled, therefore, through unemployment. This paradigm is accepted by the capitalist class itself.

The immediate problem, it appears, is that if workers are fired, how are they going to buy the goods? This thinking can lead to a simplistic notion of underconsumption. In fact, so long as the surplus value generated by capital goes into fresh investment, it continues to create demand. Marx does in fact write that the source of crisis can be found in the fact that the workers get less than their product, but he puts the argument in a much more sophisticated form.

His argument simply focuses on the fact that workers are exploited. Of course, an underconsumption theory is not limited to Marxists like Luxemburg. It also fits with Keynes and reformism in general, with which it has always been historically associated – though it does not automatically follow that if working class partisans hold to the underconsumption theory they are reformists.

The idea is that the crisis is resolved by increasing wages, but what kind of capitalist is it that keeps increasing wages? Of course, one could argue that the way out of underconsumption is to increase public spending on such things as a welfare state, raising the standard of living and thus overcoming the problem of buying back the product, as it were. This argument *is* reformist and clearly totally unrealistic. The capitalist class is not going to pay workers higher wages voluntarily. It simply would not be capitalism if it started doing that.

To the degree to which this happened in the period between the 1940s and 1970, which saw the growth of the welfare state, higher wages reflected higher productivity. Profits remained high. When profits fell, the capitalists pulled the plug. They also saw that this was no solution, because it gave the working class a degree of confidence and control which the capitalists could not accept.

In other words, reformist nostrums based on underconsumption theory can only work for a very limited period of time.

Disproportionality

The theory of disproportionality was held by Lenin and the Bolsheviks. Preobrazhensky discussed it in great detail. We have the model of two departments: department I – investment, particularly, though not exclusively, in heavy industry; and department II – consumer goods.

It is department II that relates to the ideas of underconsumption that we have discussed above. The idea behind disproportionality is that department I will tend to grow out of control at the expense of department II. Clearly, investment in department I can take a considerable time before it produces results. This stands in direct opposition to the nature of finance capital, which is short-termist, and equally clearly the long-term nature of investment in department I means that the divergences between the two departments takes time to become apparent. The fact that the capitalist class will tend to put surplus value into department I will produce a constraint in consumption by workers, as the two departments diverge.

This is Lenin's theory. Unlike the theory of underconsumption, the solution of which in a sense is inherently rooted in capitalism, as it were, the theory of disproportionality argues that the only way to overcome a systemic crisis is through planning on the basis of a socialist society. That is the revolutionary theory of the Bolsheviks.

Falling rate of profit

The theory of the falling rate of profit is in Marx, but the idea of an automatically declining rate of

profit playing a dominant role in capitalist crisis is actually quite new and has taken quite a dogmatic form. Of course, it is true that it is in the nature of capitalism to replace men with machines, and the logic of this (in terms of the labour theory of value) is that value will cease to exist. And if value ceases to exist, there can no longer be profit. That is the logical conclusion – which will clearly never be reached.

Nevertheless, in these terms a decline in the rate of profit is automatic, but this is a tendency, not a law.

Automation produces more goods for less in terms of input. So the result can be that, with consumer goods costing less, wages can actually go up in use-value terms, though not in pay, which means that profits can go up too. This also applies to department I production in terms of higher productivity, and equally a fall in the price of raw materials as part of the cost of constant capital can have the same result. So in principle the process that produces a declining rate of profit also leads to a rise in productivity. It is clear what the secular trend is, but other factors can offset the declining rate of profit.

However, they are not “counteracting factors”. The rise in productivity, as we see in Marx, is an automatic and necessary consequence of the process of the rise in the organic composition of capital. The textbooks make it appear that two separate processes are going on. That simply is not true.

Analysing crisis

To understand crisis, it is essential to examine all three aspects outlined above, as they occur over time. In other words, a crisis occurs when

there is no way of mediating these three aspects. Capitalism in decline has found forms of maintaining stability – but only at the expense of further undermining the system itself, which, in fact, creates new forms of instability based on the same contradictions. The absence of all mediation inevitably must result in a systemic crisis.

When a downturn occurs, the result is not automatic. It is not a technical question. Obviously the capitalist class has to fire people, reduce wages, close factories and increase the level of unemployment. So this becomes an immediate question of class struggle. If the working class is strong, it resists and in that case there is open class warfare.

That is what Marx meant by a crisis for capitalism – a situation in which the working class is strong enough to take power. When the system begins to break down, class relations are openly revealed and the normal class interrelationship has itself broken down. The capitalist class will try to reassert its dominance in the phenomenal form of trying to re-establish the rate of profit. I do not think Marx was wrong in anticipating a crisis-driven revolution in 1857. The working class did not take power, but Marx was basically correct.

However, the situation since 1940 in particular is completely different. The capitalist class has learned from 1917 and it does not want a repeat. It therefore accepts that there will have to be growth and it sees to it that the reserve army of labour is not very big. Instead it goes for a kind of Keynesian military solution – that is what it boils down to. It works up to a point, but only up to that point when the working class is no longer

contained by Stalinism, by the history of fascism, by war and by the residual effect of social democracy.

Military-industrial complex

Crises can be contained or delayed through vast increases in military expenditure, as has occurred in the United States. In this way the state apparatus can provide the necessary means to ensure growth, low unemployment and rising wages.

The three aspects of crisis are all mediated. Underconsumption is taken care of because workers' wages, at least in use-value terms, have risen far ahead of what would be expected from classical capitalism. In the period between 1940 and 1970 wages rose more than in the previous 150 years. Capitalism is not about the rising standard of living, but it has provided it as a concession in order to maintain itself.

Disproportionality is not a problem because the military sector takes care of that. The military sector is ideal, because demand for its product is underwritten. Arms are produced, which are later declared obsolete, leading to further arms production. And, just as there is no problem about demand, there is no problem about profit, because it is the state that orders and pays for the product.

Arms are said to be necessary because of the awful threat of the enemy. More and more must be produced to a greater degree of sophistication. Here is a 'nationalised' solution, which is ideal at the present stage – the military sector is 'nationalised' in a form that is the least opposed to capitalism. In this way the military

sector takes care of the whole problem of disproportionality in the United States. In fact, if anything, the problem is inverted, because arms production sucks in enormous resources and in theory can be infinite.

The US remains *the* dominant world power – not just politically, but economically. But now the world economy is threatened because banks in the United States had been lending to companies which could not pay the money back. As a result European banks are in trouble too. The problem is internationalised, but it was and is the US that is crucial.

Outside the United States capitalism has been stabilised by public spending on the welfare state – health, housing, etc. But after the cold war came to an end, there were new problems. In 1990, the US celebrated, but in fact it had shot itself in the foot. It was far better that it had this enemy which was no enemy at all, because now there was no longer any excuse to prepare for war. When the arms budget was slashed, the ability to offset crisis in this way was removed. Without the previous role of the military-industrial complex, disproportionality became a real possibility. The consequence was that all three aspects of crisis began to come to the fore once more. The capitalist class was no longer clear where it was going to invest and for the first time since 1940 there was a vast, constantly growing surplus of capital.

Effectively the capitalists were bailed out in 2003 by the Iraq war – and in my view this whole pressure of the build-up of surplus capital was probably the major factor leading to the war itself. However, the expenditure on Iraq – although bigger than most people, including

myself, expected – still is not enough. A large surplus of capital remains, which means that all the aspects of crisis are in play. If all this surplus capital were deployed, the rate of profit would plunge.

Finance capital

The capitalist class is not prepared to expand the economy as it did before, because that would result in inflation. The policy of the welfare state – the concentration on industry, full employment and so forth – has been reversed and there has been a huge switch to finance capital. Finance, not production, is now dominant. This did not happen for technical reasons, but as part of the class struggle. Capital does not want to be in a position where the working class could demand more, could strike and could get results.

So state expenditure was cut, a whole doctrine about the ‘necessity to balance the budget’ was developed, when there is actually no necessity to do so. The idea was to control wages and ensure that the economy would not expand too quickly, thus retaining a reserve army of labour. Today, the numbers of genuinely unemployed, as opposed to the figures produced by Brown, amount to somewhere between 16% and 20%. These people are not, of course, living in workhouses. They live on some form of pension or benefits of one kind or another. There are perhaps three million people who have been declared disabled but are in reality unemployed, so that they would not show up in the unemployment statistics. So there is a non-classical reserve army of labour, which, of course, helps to control the working class.

It is a working class that is obviously much

better off than in Marx's day – but one nonetheless that is under the control of the capitalist class. The question is always discussed in terms of 'the need to control inflation', but what is meant is the need to control the working class. The capitalists will no longer go for growth by investing in and developing industry. That just will not happen, even though that might ease their problems – the result would be the strengthening of the working class. The ruling class understands the nature of the crisis it faces, but it will continue to talk in terms of balancing the budget and thus maintaining the reserve army of labour.

The financial aspect has become more and more important. The superdominance of finance capital, as discussed by Hilferding (though his *politics* were justifiably attacked by Lenin), reveals that the key problem is *abstract* capital – abstracted from its location and from people.

This superdominance of finance capital means that it can go anywhere in the world. Globalisation is the globalisation of finance capital, first and foremost. This has been central to the current crisis all over the world. In a sense this is new in three ways. Firstly, finance capital is globalised in time and globalised in location. What happens in the United States affects China and Japan, Britain and Germany. Secondly, the intensity of the current crisis also represents a qualitative change, involving trillions of dollars. The third thing that has changed is the way in which the process is obscured by so-called financial packages and instruments, such as sub-prime mortgages. Nobody really knows what is happening and this too is new – certainly to this extent.

Why is this important? Precisely because nobody knows what is happening, confidence is low. Derivatives trading, of which the sub-prime mortgage collapse has highlighted just one example, accounts not for billions, but trillions of dollars – perhaps \$400 trillion, compared to a US GDP of \$12 trillion. This is a fantastic figure, yet nobody can know where, what or how. Will the capitalist class be able to bail it out? That too is unknown.

If the capitalists were worried in 1987, then they must be much more worried today. Of course, they know what could happen and they have plans, but what is unknown is whether they can hold out and how long they can cope. The situation is much more unstable now than it has been during the entire period since 1979.

Finance capital is necessarily unproductive – that is why Lenin calls it parasitic. The interesting feature of the present time is that it is not just parasitic: it is cannibalistic. The current craze for private equity acquisitions and asset-stripping is conducted in a much more vicious way than has been seen before.

To conclude, the development of finance capital has progressed to a new stage. It is no longer simply a question of withdrawing money from industry: it is a question of undermining the whole system. That is why the current crisis is more dangerous for capitalism than previous crises.