

## LECTURE 01 NOTES

### WHAT'S WRONG WITH CAPITALISM?

In this first lecture I am going to talk about what is wrong with capitalism.

Next week I shall talk about the views of some important pro-capitalists.

The purpose of this procedure is to firmly establish in our minds the nature of capitalism and the basic arguments *for* and *against* the system before, in Lecture Three, we move in to a more detailed consideration of the nature of anti-capitalism.

This question, 'What's wrong with Capitalism?' will dominate our thinking throughout the year. However, today, I will answer the question with a rough and ready list of six points. These six points encapsulate the fundamental reasons that most opponents of capitalism would give for their hatred of the system. Depending on how you cut it you could come up with many more — it is not a definitive list of what many people think is wrong with capitalism, but it will enable us to focus attention on the elements of the system which arouse such bitter hostility among so many millions of people.

**Firstly**, capitalism is an economy dominated by the pursuit of profit — making profits is the aim of production not meeting the needs of the people.

**Secondly**, the pursuit of profit takes place through ceaseless competition within the market — *only needs expressed within the market are met*.

Lecture 1: What's wrong with capitalism.

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**Thirdly**, the pursuit of profit within the market results in entirely unplanned production — the capitalist system is chaotic — this market chaos results in the vast waste of resources, both human and material.

**Fourthly**, this headlong and essentially chaotic struggle for profit results in a careless and ruthless struggle for growth — all capitalist economy rests upon the pursuit of growth regardless of the damage done to the environment or to traditional ways of life or forms of community.

**Fifthly**, the voracious need for profit, the incessant need for economic growth, the degradation of the natural environment, the wholesale destruction of traditional ways of life and community, results in a truly global process of cultural homogenisation — a process in which Starbucks, McDonalds, and Microsoft straddle the globe, making everywhere the same as everywhere else — destroying different cultures and ways of life at a helter-skelter pace.

**Finally**, and paradoxically, the capitalist system, by promoting the voracious pursuit of profit and incessant economic growth has promoted unparalleled scientific and technical innovation and development — this development has created, perhaps for the first time in history, the means of abolishing poverty. Yet, this striking, indeed unparalleled achievement — the real capacity to feed, house, clothe, and educate everybody on the planet

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— is constantly undermined by the pursuit of profit. This is the bitter paradox of the system — *capitalism is the system that has created the possibility of fair shares for all* — yet appears to be, *inherently*, incapable of bringing an end to the brutal physical poverty which blights the lives of billions of people.

The pursuit of profit has made the end of poverty a *technical* possibility, and simultaneously acts as a *social* barrier to its abolition.

So, anti-capitalists lay at the door of *the system itself*, responsibility for world poverty and disorder. It is their contention that poverty, economic crises, mass unemployment, environmental degradation, oppression and war, are caused by the capitalist system.

To recap: these are the six points:

1. Domination of all production by the profit motive
2. Domination by competitive markets
3. Unplanned and wasteful production
4. Incessant growth leading to environmental and social damage
5. The process of cultural homogenisation
6. The failure to employ existing *technical* resources to end world poverty and disorder

As we progress through the course I hope that we will be able to develop a more subtle account of these elements. However, this list will do for a start.

Now, we need to consider more carefully what the word ‘capitalism’ and the phrase ‘capitalist system’ mean. The terminology is treacherous. It can change radically, depending upon who is using it. Therefore, you will need to be alert in all your reading to the different ways in which different writers employ the same or similar terms. Consequently, I will attempt to be as clear as possible about the way I am using particular terms.

When I speak of capitalism I am using the term in the classical Marxist sense:

The wealth of those societies in which the capitalist mode of production prevails, presents itself as “an immense accumulation of commodities,” its unit being a single commodity.<sup>1</sup>

Marx thought of capitalism as *generalised commodity production*. Now, human beings have always made useful things, they have always, at any period of history tried to produce the things that they need. *However, they have not always produced commodities in the sense in which Marx is using the term.* By commodity Marx means something that it produced which has a two-fold property. A commodity is a thing that has both a use-value and an exchange-value. It doesn’t matter what it is – it might be a table, a bottle of vodka, a performance by a singer for which tickets are sold. In the sense in which I am using the word, the word ‘commodity’ covers everything that is produced for its exchange-value. It might be a manicure, the service of a

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<sup>1</sup> Karl Marx, 1867, *Capital*, Volume I, London: Lawrence & Wishart, 1954, p.43.

dry cleaner or several tons of wheat. In order to be a commodity a thing or service must have both a use-value and an exchange-value.

Human societies have always produced useful things. And, they have, so far as we can tell, always produced things that can be exchanged or traded.

However, capitalism is the only system in which most production, and most productive activity, is focused upon producing goods for exchange or trade.

Before the development of capitalism the objective of most handicraft manufacture and most agricultural production was subsistence production or production for the local needs of known customers. Goods were by and large produced for direct use. Commodity production of goods for the express purpose of realising their exchange-value was a marginal activity – an activity engaged in by a relatively small number of people working in agricultural or handicraft production.

And, it is not until the full development of commercial society in England in the closing decades of the seventeenth century and the early years of the eighteenth century that it is possible to talk of a whole society beginning to be dominated by the production of commodities to be traded on regional, national or world markets. There are examples of capitalist relations developing much earlier in places like the Venetian Republic, like Florence and Amsterdam, but England was the first place in which commodity production for trade on world markets came to dominate the life of an entire nation.

**Lecture 1: What's wrong with capitalism.**

A century before the use of steam engines or the widespread development of factory machine production the growth of commercial society began to lay the foundations of a full-blown capitalist economy; *an economy where the express purpose of production is the sale of goods at a profit on the market.*

The effect of this kind of economy was vastly to increase the total wealth of society. Animal husbandry and agriculture was improved, yields went up, more grain was grown per acre, and domesticated animals grew both in number and in size. Cows gave more milk, pigs gave more meat, and flocks of hens and geese grew in number and quality. By 1760 canals and artificial waterways began to be constructed, roads were improved, and the cost of transport fell dramatically.

Capitalism, *the generalised production of commodities for sale on the market at a profit,* during the course of the eighteenth century gave rise to the development of machine production and the industrial revolution that by 1830 was transforming England into the first industrial country. It was a country in which unparalleled wealth was created by harnessing production to the profit motive and the production of goods for the market.

*In the course of this development labour itself became a commodity.* The *time* of working men and women came to be bought and sold much like any other commodity. No longer were labourers tied to large estates or farms, to traditional masters, working for local merchants, farmers or landlords. On

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the contrary, as the capitalist system of commodity production developed every effort was made to develop a free market in *buying* and *selling* the labour power or time of workers. Employers increasingly began to resist the restrictions imposed by customary forms of contract between master and servant. Restrictions imposed upon entry to particular trades – the tight regulation of craft training and the control of wages – were resisted. A struggle ensued to ensure that all pre-capitalist or feudal restrictions on the freedom of labourers to work for whom they pleased at the best price they could get on the open labour market were abolished.

So, under capitalism the employer pays the going rate for the labour power that he buys. The price (i.e. the wage) is determined by supply and demand for particular sorts of labour. The price of labour is determined in a similar manner to the price of every other commodity, by the operation of supply and demand, and by estimation of its quality and skill. The employer estimates the quality (and skill) and the quantity of labour he requires and hires people accordingly. *Ideally*, as long as the labour market is not distorted by *combinations of workers* seeking, through trade unions or other forms of organisation, to interfere with the operation of the labour market, the price of labour – the wage – is the result of a bargain between two equal parties: the employer on the one hand and the worker on the other. Both are entirely free to trade – the employer to buy the worker's labour time, and the worker to sell their time and energy – at a mutually agreed price. *Ideally*, the wage is not the product of custom or practice, it is not produced by socially

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contingent ideas of what the worker *needs* or by what the employer *can afford*. The wage is determined by market forces and is agreed in a free exchange or contract freely entered into by both the employer and the worker. The worker will always grumble about his wages but he will accept them until he can get more from another employer. In this *ideal* sense it is a bargain entered into to by two free and equal parties.

However, lying at the root or foundation of this exchange is a fundamental inequality. The employer is an employer because he owns or controls capital. The employer possesses the buildings, equipment, machinery; the employer has the loans, contacts and knowledge necessary to conduct his or her business. On the other hand, the worker has only their labour power, their particular skills and personal qualities and their time to sell. For if the worker had other resources it is safe to assume he would work for himself – be self-employed – or may even become an employer himself.

Lying at the root of the *equal* exchange between the employer buying labour time (paying wages), and the worker selling labour time (working hours) at an agreed price is a fundamental inequality. On the one hand, it is an equal bargain: the worker is paid the *full value* of what his labour is worth. On the other hand, it is a profoundly unequal bargain: the bosses have a large quantity of resources at their disposal, the worker, by contrast, has only their labour power and their need for a wage.

**Lecture 1: What's wrong with capitalism.**

So, this fundamental relationship, the relationship between capital (in the person of the employer) and labour (in the person of the worker) is paradoxical. It is an equal transaction – one buying and one selling – between two profoundly unequal parties: the employer who has the capital and the worker who has the labour time.

This relationship between capital and labour rests upon two fundamental conditions. The first is private property – the fully protected legal right of an individual to own and freely use land, buildings, machinery and other equipment. The second is free labour – the right of individuals to work wherever and for whomever they please at prices and conditions, which they mutually agree with the employer.

Capitalism rests upon these two pillars: Private property and free labour. Indeed the relationship between worker and employer, the relationship between capital and labour, is a relationship between private property and free labour. The free labour – the commodity labour power – is set to work with the private property – the capital (i.e., the land, buildings, raw materials and other equipment) – to produce commodities which, it is hoped will realise a profit when they are sold on the market.

This equal relationship between unequal partners – the relation between capital and labour – is necessarily also a relation between private property and free labour. This gives rise to a further paradox: the worker is free to be

**Lecture 1: What's wrong with capitalism.**

hired or fired, free to take a job or jack it in, at will, *but whilst at work the worker is not free*. They have sold their labour time to the employer. Their time is no longer their own. In the workplace it is the employer who decides.

Whether you work in a 'team' or a 'crew', or a call-centre booth, whether you call your supervisor Ahmed or Jill, or just plain Sir, the workplace is a dictatorship. You may well have clearly defined rights, but you have no control or 'say' whatsoever in the management of the business. From time to time you may even be consulted, your opinion about this or that may be sought, but it is the prerogative of the employer, and those he hires to supervise, to make *all* decisions and to determine *all* policies. The workplace is, *most emphatically*, not a democracy.

Relations within the workplace rest upon the rule of law, which protects both the property of the capitalist and the individual rights of the worker.

Relations within the workplace rest upon the formal equality between private capital and free labour. However, in the workplace the worker has no rights at all in the direction of the business; no say in what is produced, how much it is sold for, or how the business is developed or conducted.

In advanced or rich capitalist countries this contrast between the rights which free individual citizens – workers or employees – have in the political process and within the conduct of their ordinary lives on the one hand, and

the complete absence of any rights in the workplace to direct the affairs of the firms for whom they work is striking. Democratic rights simply do not exist within the free and equal exchange, which takes place between capital (i.e., the employer) buying labour time, and the labour (i.e., the employee) selling their labour time.

Consequently, it is relatively easy for working people who depend upon wages and salaries, which they earn by freely selling their labour time to employers to be cynical about political rhetoric concerning ‘freedom’ and ‘democracy’. This is because in the actual day-to-day experience of most working people there are few democratic rights which they can actually exercise. In the workplace, the place where most people spend most of their time, they clearly have no democratic rights whatsoever. They have contracts of employment, which define their wages and the conditions of their employment, but they have no democratic rights to determine the nature or direction of the business – no control over what or how the commodities, which they produce day in and day out, are distributed or sold.

Consequently, there is a vast gulf between the rule of law in which private property rights and the rights of individuals are defined and defended and the realm of politics, which regulates the operation of the law and the behaviour of the state, *and the realm of economics*. In the political sphere every citizen is equal before the law. In the sphere of economics this equal right to own property, the equal right to buy and sell at fair prices, this equal

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right to buy and sell labour time, is by the alchemical processes of the operation of the capitalist system transformed into the profoundly *unequal* and undemocratic relations which obtain within the workplace.

Now, it is this iron distinction between the sphere of politics and law on the one hand and the tyrannical or dictatorial nature of relations in the sphere of economics and the workplace on the other that has exercised and defined the concern of socialists since the inception of systematic anti-capitalist movements in the 1820s and 1830s. Early socialists and communists always wanted to collapse the distinction between politics and economics. Anti-capitalists from the earliest days have wanted to dissolve the distinction between politics and economics. In essence they have always wanted to establish full democratic rights and sought to extend these democratic rights *directly into the sphere of economic life*.

Initially, they attempted to do this by establishing co-operatives and model utopian communities in which *all* would have a right to participate in the management of the factory or farm or workshop. Subsequently, communists sought to extend this by using the state – the workers’ state – as the instrument through which all economic life would come under direct political control. The market and the capitalists would no longer determine the nature, purpose or pace of production; the workers and their representatives would decide all that.

All anti-capitalists want either to erode or abolish the distinction between economic life and political life. They want political judgements and political decisions to take precedence over the operation of the market and the exchange of commodities and of the buying and selling of the commodity labour power. This is the case, even for more moderate socialists, and for those modern anti-capitalists who fall short of being out-and-out communists. *Anti-capitalists always want the state or the wider political community to intervene in economic life to ensure the achievement of particular social objectives.* Whether it is attacking child labour, making poverty history or, more modestly, trying to establish a minimum wage or getting more social housing built, the anti-capitalist wants to erode or abolish the distinction between economics and politics. They tend to want production to be subject increasingly to political objectives. They want all economic life subordinated to social objectives and political decisions.

Anti-capitalists are intrinsically opposed to the free use and control of private property – they want productive property to be controlled and directed by the community, by the state, or by popular organisations run for and by workers and consumers. Anti-capitalists want the capitalist system in which most goods and services are produced for profit replaced by a system in which goods are produced primarily because the community needs them.

Anti-capitalists want to shift from today's society in which commodities are produced entirely for their *exchange-value* to a fairer society in which goods

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are produced primarily for their use-value. They think production should be for need *not* exchange.

Within and between the many different anti-capitalist movements and organisations there are many different positions, many different degrees of engagement with the system. There are moderates and extremists, realists, pragmatists, reformists, idealists, anarchists and communists, the religious and the atheists, the sensible and the just plain wacky. But all are united in believing that capitalism must be replaced by a system which:

- puts people before profit
- values co-operation more than competition
- replaces the chaos and waste of the market with sensible planning and fairer distribution
- replaces greed and incessant growth with sustainable production and technologies that respects the environment
- values cultural variety and diversity, and
- places the full resources of society at the service of ending poverty and war.

What unites all these ideas is the view that economic life should be subject to political and social direction – they are united by the belief that *the fundamental distinction between the political realm and the economic realm characteristic of capitalism* should be greatly diminished if not abolished altogether.

In Lecture Two, before we go on to look at anti-capitalism in more detail, we will look at arguments in favour of capitalism. The arguments of Adam

Smith, Von Mises, Hayek, and Milton Friedman that answer and seek to unravel everything that I have been saying today.