

DAVID HARVEY



SEVENTEEN CONTRADICTIONS
AND THE END OF CAPITALISM

Seventeen Contradictions and the End of Capitalism

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To John Davey

In recognition of his wise counsel and support for almost everything I have ever published

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Prologue

The Crisis of Capitalism This Time Around

Crises are essential to the reproduction of capitalism. It is in the course of crises that the instabilities of capitalism are confronted, reshaped and re-engineered to create a new version of what capitalism is about. Much gets torn down and laid waste to make way for the new. Once-productive landscapes are turned into industrial waste-lands, old factories are torn down or converted to new uses, working-class neighbourhoods get gentrified. Elsewhere, small farms and peasant holdings are displaced by large scale industrialised agriculture or by sleek new factories. Business parks, R&D and wholesale warehousing and distribution centres sprawl across the land in the midst of suburban tract housing linked together with clover-leafed highways. Central cities compete with how tall and glamorous their office towers and iconic cultural buildings might be, mega-shopping malls galore proliferate in city and suburb alike, some even doubling as airports through which hordes of tourists and business executives ceaselessly pass in a world gone cosmopolitan by default. Golf courses and gated communities pioneered in the USA can now be seen in China, Chile and India, contrasting with sprawling squatter and self-built settlements officially designated as slums, favelas or *barrios pobres*.

But what is so striking about crises is not so much the wholesale reconfiguration of physical landscapes, but dramatic changes in ways of thought and understanding, of institutions and dominant ideologies, of political allegiances and processes, of political subjectivities, of technologies and organisational forms, of social relations, of the cultural customs and tastes that inform daily life. Crises shake our mental conceptions of the world and of our place in it to the very core. And we, restless participants and inhabitants of this new emerging world, have to adapt, through coercion or consent, to the new state of things, even as we, by virtue of what we do and how we think and behave, add our two cents' worth to the messy qualities of this world.

In the midst of a crisis it is hard to see where the exit might be. Crises are not singular events. While they have their obvious triggers, the tectonic shifts they represent take many years to work out. The long-drawn-out crisis that began with the stock market crash of 1929 was not finally resolved until the 1950s, after the world had passed through the Depression of the 1930s and the global war of the 1940s. Likewise, the crisis whose existence was signalled by turbulence in international currency markets in the late 1960s and the events of 1968 on the streets of many cities (from Paris and Chicago to Mexico City and Bangkok) was not resolved until the mid-1980s, having passed through the early 1970s collapse of the Bretton Woods international monetary system set up in 1944, a turbulent decade of labour struggles in the 1970s and the rise and consolidation of the politics of neoliberalisation under Reagan, Thatcher, Kohl, Pinochet and, ultimately, Deng in China.

With the benefit of hindsight it is not hard to spot abundant signs of problems to come well before a crisis explodes into full view. The surging inequalities in monetary wealth and incomes of the 1920s and the property market asset bubble that popped in 1928 in the USA presaged the collapse of 1929, for example. Indeed, the manner of exit from one crisis contains within itself the seeds of crises to come. The debt-saturated and increasingly deregulated global financialisation that began in the 1980s as a way to solve conflicts with labour by facilitating geographical mobility and dispersal produced its denouement in the fall of the investment bank of Lehman Brothers on 15 September 2008.

It is, at the time of writing, more than five years since that event, which triggered the cascading financial collapses that followed. If the past is any guide, it would be churlish to expect at this point any clear indications of what a revived capitalism – if such is possible – might look like. But there should by now be competing diagnoses of what is wrong and a proliferation of proposals for putting things right. What is astonishing is the paucity of new thinking or policies. The world is broadly polarised between a continuation (as in Europe and the United States) if not a deepening of neoliberal supply-side and monetarist remedies that emphasise austerity as the proper medicine to cure our ills and the revival of some version, usually watered down, of a Keynesian demand-side and debt-financed expansion (as in China) that ignores Keynes's emphasis upon the redistribution of income to the lower classes as one of its key components. No matter which policy is being followed, the result is to favour the billionaires club that now constitutes an increasingly powerful plutocracy both within countries and (like Rupert Murdoch) upon the world stage. Everywhere, the rich are getting richer by the minute. The top 100 billionaires in the world (from China, Russia, India, Mexico and Indonesia as well as from the traditional centres of wealth in North America and Europe) added \$240 billion to their coffers in 2012 alone (enough, calculates Oxfam, to end world poverty overnight). By contrast the well-being of the masses at best stagnates or more likely undergoes an accelerating if not catastrophic (as in Greece and Spain) degradation.

The one big institutional difference this time around seems to be the role of the central banks, with the Federal Reserve of the United States playing a leading if not domineering role on the world stage. But ever since the inception of central banks (back in 1694 in the British case), their role has been to protect and bail out the bankers and not to take care of the well-being of the people. The fact that the United States could statistically exit the crisis in the summer of 2009 and that stock markets almost everywhere could recover their losses has had everything to do with the policies of the Federal Reserve. Does this portend a global capitalism managed under the dictatorship of the world's central bankers whose foremost charge is to protect the power of the banks and the plutocrats? If so, then there seems to offer very little prospect for a solution to current problems of stagnant economies and falling living standards for the mass of the world's population.

There is also much chatter about the prospects for a technological fix to the current economic malaise. While the bundling of new technologies and organisational forms has always played an important role in facilitating an exit from crises, it has never played a determinate one. The hopeful focus these days is on a 'knowledge-based' capitalism (with biomedical and genetic engineering and artificial intelligence at the forefront). But innovation is always a double-edged sword. The 1980s, after all, gave us deindustrialisation through automation such that the likes of General Motors (which employed well-paid unionised labour in the 1960s) have now been supplanted by the likes of Walmart (with its vast non-unionised low-wage labour force) as the largest private employers in the United States. If the current burst of innovation points in any direction at all, it is towards decreasing employment opportunities for labour and the increasing significance of rents extracted from intellectual property rights for capital. But if everyone tries to live off rents and nobody invests in making anything, then plainly capitalism is headed towards a crisis of an entirely different sort.

It is not only the capitalist elites and their intellectual and academic acolytes who seem incapable of making any radical break with their past or defining a viable exit from the grumbling crisis of low growth, stagnation, high unemployment and the loss of state sovereignty to the power of bondholders. The forces of the traditional left (political parties and trade unions) are plainly incapable of mounting any solid opposition to the power of capital. They have been beaten down by thirty years of ideological and political assault from the right, while democratic socialism has been discredited. The stigmatised collapse of actually existing communism and the 'death of Marxism' after 1989 made matters worse. What remains of the radical left now operates largely outside of any institutional

organised oppositional channels, in the hope that small-scale actions and local activism can ultimately add up to some kind of satisfactory macro alternative. This left, which strangely echoes a libertarian and even neoliberal ethic of anti-statism, is nurtured intellectually by thinkers such as Michel Foucault and all those who have reassembled postmodern fragmentations under the banner of a large, incomprehensible post-structuralism that favours identity politics and eschews class analysis. Autonomist, anarchist and localist perspectives and actions are everywhere in evidence. But to the degree that this left seeks to change the world without taking power, so an increasingly consolidated plutocratic capitalist class remains unchallenged in its ability to dominate the world without constraint. This new ruling class is aided by a security and surveillance state that is by no means loathe to use its police powers to quell all forms of dissent in the name of anti-terrorism.

It is in this context that I have written this book. The mode of approach I have adopted is somewhat unconventional in that it follows Marx's method but not necessarily his prescriptions and it is to be feared that readers will be deterred by this from assiduously taking up the arguments here laid out. But something different in the way of investigative methods and mental conceptions is plainly needed in these barren intellectual times if we are to escape the current hiatus in economic thinking, policies and politics. After all, the economic engine of capitalism is plainly in much difficulty. It lurches between just sputtering along and threatening to grind to a halt or exploding episodically hither and thither without warning. Signs of danger abound at every turn in the midst of prospects of plentiful life for everyone somewhere down the road. Nobody seems to have a coherent understanding of how, let alone why, capitalism is so troubled. But it has always been so. World crises have always been, as Marx once put it, 'the real concentration and forcible adjustment of all the contradictions of the bourgeois economy'.¹ Unravelling those contradictions should reveal a great deal about the economic problems that so ail us. Surely that is worth a serious try.

It also seemed right to sketch in the likely outcomes and possible political consequences that flow from the application of this distinctive mode of thought to an understanding of capitalism's political economy. These consequences may not seem, at first blush, to be likely, let alone practicable or politically palatable. But it is vital that alternatives be broached, however foreign they may seem, and if necessary, seized upon if conditions so dictate. In this way a window can be opened on to a whole field of untapped and unconsidered possibilities. We need an open forum – a global assembly, as it were – to consider where capital is, where it might be going and what should be done about it. I hope that this brief book will contribute something to the debate.

New York City
January 2013

Introduction

On Contradiction

‘There must be a way of scanning or X-raying the present which shows up a certain future as a potential within it. Otherwise, you will simply succeed in making people desire fruitlessly ...’

Terry Eagleton, *Why Marx Was Right*, p. 69

‘In the crises of the world market, the contradictions and antagonisms of bourgeois production are strikingly revealed. Instead of investigating the nature of the conflicting elements which erupt in the catastrophe, the apologists content themselves with denying the catastrophe itself and insisting, in the face of their regular and periodic recurrence, that if production were carried on according to the textbooks, crises would never occur.’

Karl Marx, *Theories of Surplus Value*, Part 2, p. 500

There are two basic ways in which the concept of contradiction is used in the English language. The commonest and most obvious derives from Aristotle’s logic, in which two statements are held to be so totally at odds that both cannot possibly be true. The statement ‘All blackbirds are black’ contradicts the statement that ‘All blackbirds are white.’ If one statement is true, then the other is not.

The other mode of usage arises when two seemingly opposed forces are simultaneously present within a particular situation, an entity, a process or an event. Many of us experience, for example, a tension between the demands of working at a job and constructing a satisfying personal life at home. Women in particular are perpetually being advised on how they might better balance career objectives with family obligations. We are surrounded with such tensions at every turn. For the most part we manage them on a daily basis so that we don’t get too stressed out and frazzled by them. We may even dream of eliminating them by internalising them. In the case of living and working, for example, we may locate these two competing activities in the same space and not segregate them in time. But this does not necessarily help, as someone glued to their computer screen struggling to meet a deadline while the kids are playing with matches in the kitchen soon enough has to recognise (for this reason often turns out to be easier to clearly separate living and working spaces and times).

Tensions between the competing demands of organised production and the need to reproduce daily life have always existed. But they are often latent rather than overt and as such remain unnoticed as people go about their daily business. Furthermore, the oppositions are not always starkly defined. They can be porous and bleed into each other. The distinction between working and living, for example, often gets blurred (I have this problem a lot). In much the same way that the distinction between inside and outside rests on clear borders and boundaries when there may be none, so there are many situations where clear oppositions are hard to identify.

Situations arise, however, in which the contradictions become more obvious. They sharpen and then get to the point where the stress between opposing desires feels unbearable. In the case of career objectives and a satisfying family life, external circumstances can change and turn what was once manageable tension into a crisis: the demands of the job may shift (change of hours or location). Circumstances on the home front may be disrupted (a sudden illness, the mother-in-law who took care of the kids after school retires to Florida). People’s feelings on the inside can change also: someone

experiences an epiphany, concludes 'this is no way to live a life' and throws up their job in disgust. Newly acquired ethical or religious principles may demand a different mode of being in the world. Different groups in a population (for example, men and women) or different individuals may feel and react to similar contradictions in very different ways. There is a powerful subjective element in defining and feeling the power of contradictions. What is unmanageable for one may mean nothing special for another. While the reasons may vary and conditions may differ, latent contradictions may suddenly intensify to create violent crises. Once resolved, then the contradictions can just as suddenly subside (though rarely without leaving marks and sometimes scars from their passage). The genie is, as it were, temporarily stuffed back into the bottle, usually by way of some radical readjustment between the opposing forces that lie at the root of the contradiction.

Contradictions are by no means all bad and I certainly don't mean to imply any automatic negative connotation. They can be a fecund source of both personal and social change from which people emerge far better off than before. We do not always succumb to and get lost in them. We can use them creatively. One of the ways out of a contradiction is innovation. We can adapt our ideas and practices to new circumstances and learn to be a far better and more tolerant person from the experience. Partners who had drifted apart may rediscover each other's virtues as they get together to manage a crisis between work and family. Or they may find a solution through forming new and enduring bonds of mutual support and caring with others in the neighbourhood where they live. This kind of adaptation can happen at a macroeconomic scale as well as to individuals. Britain, for example, found itself in a contradictory situation in the early eighteenth century. The land was needed for biofuel (charcoal in particular) and for food production, and, at a time when the capacity for international trade in energy and foodstuffs was limited, the development of capitalism in Britain threatened to grind to a halt because of intensifying competition on the land between the two uses. The answer lay in going underground to mine coal as a source of energy so the land could be used to grow food alone. Later on, the invention of the steam engine helped revolutionise what capitalism was about as fossil fuel sources became general. A contradiction can often be the 'mother of invention'. But notice something important here: resort to fossil fuels relieved one contradiction but now, centuries later, anchors another contradiction between fossil fuel use and climate change. Contradictions have the nasty habit of not being resolved but merely moved around. Mark this principle well, for we will come back to it many times in what follows.

The contradictions of capital have often spawned innovations, many of which have improved the qualities of daily life. Contradictions when they erupt into a crisis of capital generate moments of 'creative destruction'. Rarely is it the case that what is created and what is destroyed is predetermined and rarely is it the case that everything that is created is bad and everything that was good was destroyed. And rarely are the contradictions totally resolved. Crises are moments of transformation in which capital typically reinvents itself and morphs into something else. And the 'something else' may be better or worse for the people even as it stabilises the reproduction of capital. But crises are also moments of danger when the reproduction of capital is threatened by the underlying contradictions.

In this study I rely on the dialectical rather than the logical Aristotelian conception of contradiction.¹ I do not mean to imply by this that the Aristotelian definition is wrong. The two definitions – seemingly in contradiction – are autonomous and compatible. It is just that they refer to very different circumstances. I find that the dialectical conception is rich in possibilities and not at all difficult to work with.

At the outset, however, I must first open up what is perhaps the most important contradiction of all: that between reality and appearance in the world in which we live.

Marx famously advised that our task should be to change the world rather than to understand it. But when I look at the corpus of his writings I have to say that he spent an inordinate amount of time

seated in the library of the British Museum seeking to understand the world. This was so, I think, for one very simple reason. That reason is best captured by the term 'fetishism'. By fetishism, Marx was referring to the various masks, disguises and distortions of what is really going on around us. 'If everything were as it appeared on the surface,' he wrote, 'there would be no need for science.' We need to get behind the surface appearances if we are to act coherently in the world. Otherwise, acting in response to misleading surface signals typically produces disastrous outcomes. Scientists long ago taught us, for example, that the sun does not actually go around the earth, as it appears to do (though in a recent survey in the USA it seems 20 per cent of the population still believe it does!). Medical practitioners likewise recognise that there is a big difference between symptoms and underlying causes. At their best, they have transformed their understanding of the differences between appearances and realities into a fine art of medical diagnosis. I had a sharp pain in my chest and was convinced it was a heart problem, but it turned out to be referred pain from a pinched nerve in my neck and a few physical exercises put it right. Marx wanted to generate the same sorts of insight when it came to understanding the circulation and accumulation of capital. There are, he argued, surface appearances that disguise underlying realities. Whether or not we agree with his specific diagnoses does not matter at this point (though it would be foolish not to take note of his findings). What matters is that we recognise the general possibility that we are often encountering symptoms rather than underlying causes and that we need to unmask what is truly happening underneath a welter of often mystifying surface appearances.

Let me give some examples. I put \$100 in a savings account at a 3 per cent annual compound rate of interest and after twenty years it has grown to \$180.61. Money seems to have the magical power to increase itself at a compounding rate. I do nothing but my savings account grows. Money seems to have the magical capacity to lay its own golden eggs. But where does the increase of money (the interest) really come from?

This is not the only kind of fetish around. The supermarket is riddled with fetishistic signs and disguises. The lettuce costs half as much as half a pound of tomatoes. But where did the lettuce and the tomatoes come from and who was it that worked to produce them and who brought them to the supermarket? And why does one item cost so much more than another? Moreover, who has the right to attach some kabbalistic sign like \$ or € or £ over the items for sale and who puts a number on them like \$1 a pound or €2 a kilo? Commodities magically appear in the supermarkets with a price tag attached such that customers with money can satisfy their wants and needs depending upon how much money they have in their pockets. We get used to all this, but we don't notice that we have no idea where most of the items come from, how they were produced, by whom and under what conditions, why, exactly, they exchange in the ratios they do and what the money we use is really all about (particularly when we read that the Federal Reserve has just created another \$1 trillion of it at the drop of a hat!).

The contradiction between reality and appearance which all this produces is by far the most general and pervasive contradiction that we have to confront in trying to unravel the more specific contradictions of capital. The fetish understood in this way is not a crazy belief, a mere illusion or a hall of mirrors (though it will sometimes seem that way). It really is the case that money can be used to buy commodities and that we can live out our lives without much concern about anything other than how much money we have and how much that money will buy in the supermarket. And the money in my savings account really does grow. But ask the question 'What is money?' and the answer is usually a baffled silence. Mystifications and masks surround us at every turn, though occasionally, of course, we get shocked when we read that the thousand or so workers who died when a factory building collapsed in Bangladesh were making the shirts we are wearing. For the most part we know nothing about the people who produce the goods that support our daily life.

We can live perfectly well within a fetish world of surface signals, signs and appearances without needing to know all that much about how it works (in much the same way that we can turn on a switch and have light without knowing anything about electricity generation). It is only when something dramatic happens – the supermarket shelves are bare, the prices in the supermarket go haywire, the money in our pocket suddenly becomes worthless (or the light does not go on) – that we typically ask the bigger and broader questions as to why and how things are happening ‘out there’, beyond the doors and unloading bays of the supermarket, that can so dramatically affect daily life and sustenance.

In this book I will try to get behind the fetishism and identify the contradictory forces that beset the economic engine that powers capitalism. I do so because I believe that most of the accounts of what is happening currently available to us are profoundly misleading: they replicate the fetishism and do nothing to disperse the fog of misunderstanding.

I here make, however, a clear distinction between *capitalism* and *capital*. This investigation focuses on capital and not on capitalism. So what does this distinction entail? By capitalism I mean any social formation in which processes of capital circulation and accumulation are hegemonic and dominant in providing and shaping the material, social and intellectual bases for social life. Capitalism is rife with innumerable contradictions, many of which, though, have nothing in particular to do directly with capital accumulation. These contradictions transcend the specificities of capitalist social formations. For example, gender relations such as patriarchy underpin contradictions to be found in ancient Greece and Rome, in ancient China, in Inner Mongolia or in Ruanda. The same applies to racial distinctions, understood as any claim to biological superiority on the part of some subgroup in the population vis-à-vis the rest (race is not, therefore, defined in terms of phenotype: the working and peasant classes in France in the mid-nineteenth century were openly and widely regarded as biologically inferior beings – a view that was perpetuated in many of Zola’s novels). Racialisation and gender discriminations have been around for a very long time and there is no question that the history of capitalism is an intensely racialised and gendered history. The question then arises: why do I not include the contradictions of race and gender (along with many others, such as nationalism, ethnicity and religion) as foundational in this study of the contradictions of capital?

The short answer is that I exclude them because although they are omnipresent within capitalism they are not specific to the form of circulation and accumulation that constitutes the economic engine of capitalism. This in no way implies that they have no impact on capital accumulation or that capital accumulation does not equally affect (‘infect’ might be a better word) or make active use of them. Capitalism clearly has in various times and places pushed racialisation, for example, to extremes (including the horrors of genocide and holocausts). Contemporary capitalism plainly feeds off gender discriminations and violence as well as upon the frequent dehumanisation of people of colour. The intersections and interactions between racialisation and capital accumulation are both highly visible and powerfully present. But an examination of these tells me nothing particular about how the economic engine of capital works, even as it identifies one source from where it plainly draws its energy.

The longer answer requires a better understanding of my purpose and of the method I have chosen to pursue. In the same way that a biologist might isolate a distinctive ecosystem whose dynamics (and contradictions!) need to be analysed as if it is isolated from the rest of the world, so I seek to isolate capital circulation and accumulation from everything else that is going on. I treat it as a ‘closed system’ in order to identify its major internal contradictions. I use, in short, the power of abstraction to build a model of how the economic engine of capitalism works. I use this model to explore why and how periodic crises occur and whether, in the long run, there are certain contradictions that may prove fatal to the perpetuation of capitalism as we now know it.

In the same way that the biologist will readily admit that external forces and disruptions

(hurricanes, global warming and sea-level rise, noxious pollutants in the air or contamination of the water) will often overwhelm the 'normal' dynamics of ecological reproduction in the area she has isolated for study, so the same is true in my case: wars, nationalism, geopolitical struggles, disasters of various kinds all enter into the dynamics of capitalism, along with hefty doses of racism and gender, sexual, religious and ethnic hatreds and discriminations. It would take only one nuclear holocaust to end it all well before any potentially fatal internal contradictions of capital have done their work.

I am not saying, therefore, that everything that happens under capitalism is driven by the contradictions of capital. But I do want to identify those internal contradictions of capital that have produced the recent crises and made it seem as if there is no clear exit without destroying the lives and livelihoods of millions of people around the world.

Let me use a different metaphor to explain my method. A vast cruise ship sailing the ocean is a particular and complicated physical site for divergent activities, social relations and interactions. Different classes, genders, ethnicities and races will interact in sometimes friendly and at other times violently oppositional ways as the cruise progresses. The employees, from the captain on down, will be hierarchically organised and some strata (for example, the cabin stewards) may be at loggerheads with their overseers as well as with the demanding people they are required to serve. We could aspire to describe in detail what happens on the decks and in the cabins of this cruise ship and when revolutions may break out between decks. The ultra rich may isolate themselves on the upper deck playing an infinite game of poker which redistributes wealth among them, while paying no mind whatsoever to what transpires below. But it is not my interest here to get into all of this. In the bowels of this ship there is an economic engine that pounds away day and night supplying energy to it and powering it across the ocean. Everything that happens on this ship is contingent on this engine continuing to function. If it breaks down or blows up, then the ship is dysfunctional.

Plainly, the engine we have has been stuttering and grumbling of late. It appears peculiarly vulnerable. In this inquiry I shall try to establish why. If it does break down and the ship lies listless and powerless in the water, then we will all be in deep trouble. The engine will have to be either repaired or replaced with an engine of a different design. If the latter, then this poses the question of how to redesign the economic engine and to what specifications. In so doing it is helpful to know what did or did not work well in the old engine so we can emulate its qualities without replicating its faults.

There are, however, a number of key points where the contradictions of capitalism affect the economic engine of capital with potentially disruptive force. If the engine gets flooded because of external events (such as a nuclear war, a global infectious disease pandemic that halts all trade, a revolutionary movement from above that attacks the engineers below or a negligent captain who steers the boat on to the rocks), then plainly the engine of capital stops for reasons other than its own internal contradictions. I will, in what follows, duly note the primary points where the engine of capital accumulation might be particularly vulnerable to such external influences. But I shall not pursue the consequences in any detail, for, as I began by insisting, my aim here is to isolate and analyse the *internal* contradictions of capital rather than the contradictions of capitalism taken as a whole.

In certain circles it is fashionable to derogatorily dismiss studies such as this as 'capitalo-centric'. Not only do I see nothing wrong with such studies, provided, of course, that the interpretive claims that arise from them are not pressed too far and in the wrong direction, but I also think it imperative that we have much more sophisticated and profound capitalo-centric studies to hand to facilitate a better understanding of the recent problems that capital accumulation has encountered. How else can we interpret the persistent contemporary problems of mass unemployment, the downward spiral of economic development in Europe and Japan, the unstable lurches forward of China, India and the other so-called BRIC countries? Without a ready guide to the contradictions underpinning such

phenomena we will be lost. It is surely myopic, if not dangerous and ridiculous, to dismiss ~~'capitalo-centric' interpretations and theories of how the economic engine of capital accumulation~~ works in relation to the present conjuncture. Without such studies we will likely misread and misinterpret the events that are occurring around us. Erroneous interpretations will almost certainly lead to erroneous politics whose likely outcome will be to deepen rather than to alleviate crises of accumulation and the social misery that derives from them. This is, I believe, a serious problem throughout much of the contemporary capitalist world: erroneous policies based in erroneous theorising are compounding the economic difficulties and exacerbating the social disruption and misery that result. For the putative 'anti-capitalist' movement now in formation it is even more crucial not only to better understand what exactly it is that it might be opposed to, but also to articulate a clear argument as to why an anti-capitalist movement makes sense in our times and why such a movement is so imperative if the mass of humanity is to live a decent life in the difficult years to come.

So what I am seeking here is a better understanding of the contradictions of *capital*, not *capitalism*. I want to know how the economic engine of *capitalism* works the way it does, and why it might stutter and stall and sometimes appear to be on the verge of collapse. I also want to show what this economic engine should be replaced and with what.

Part One

The Foundational Contradictions

The first seven contradictions are foundational because capital simply could not function without them. Furthermore, they all hang together in such a way as to make it impossible to substantially modify, let alone abolish, any one of them without seriously modifying or abolishing the others. Challenging the dominant role of exchange value in the provision of a use value like housing, for example, implies changes in the form and role of money and modifying, if not abolishing, the private property rights regime with which we are all too familiar. The search for an anti-capitalist alternative consequently appears a rather tall order. Simultaneous transformations would have to occur on many fronts. Difficulties on one front have also often been contained by strong resistances elsewhere such that general crises are avoided. But the interlinkages between the contradictions on occasion turn toxic. An intensification of a contradiction of one sort can become contagious. When contagious contradictions multiply and magnify (as clearly happened in 2007–9), then a general crisis ensues. This is dangerous for capital and creates opportunities for systemic anti-capitalist struggle. This is why an analysis of the contradictions that produce such general crises is so important. If oppositional and anti-capitalist movements in particular know what broadly to expect as the contradictions unfold, then they will be better positioned to take advantage of, rather than being surprised and stymied by, the way the contradictions move around and deepen (both geographically and sectorally) in the course of crisis formation and resolution. If crises are transitional and disruptive phases in which capital is reconstituted in a new form, then they are also phases in which deep questions can be posed and acted upon by those social movements seeking to remake the world in a different image.

Contradiction 1

Use Value and Exchange Value

Nothing could be simpler. I walk into a supermarket with money in my pocket and exchange it for some food items. I cannot eat the money but I can eat the food. So the food is useful to me in ways that the money is not. The food is shortly thereafter used up and consumed away, while the bits of paper and coins that are accepted as money continue to circulate. Some of the money taken in by the supermarket is paid out in the form of wages to a cashier who uses the money to buy more food. Some of the earnings go to owners in the form of profit and they spend it on all sorts of things. Some of it goes to the middlemen and eventually to the direct producers of the food, who all also spend it. And so it goes on and on. In a capitalist society millions of transactions of this sort take place every day. Commodities like food, clothing and cellphones come and go, while the money just keeps on circulating through people's (or institutions') pockets. This is how daily life is currently lived by much of the world's population.

All the commodities we buy in a capitalist society have a use value and an exchange value. The difference between the two forms of value is significant. To the degree they are often at odds with each other they constitute a contradiction, which can, on occasion, give rise to a crisis. The use values are infinitely varied (even for the same item), while the exchange value (under normal conditions) is uniform and qualitatively identical (a dollar is a dollar is a dollar, and even when it is a euro it has a known exchange rate with the dollar).

Consider, as an example, the use value and the exchange value of a house. As a use value, the house provides shelter; it is a place where people can build a home and an affective life; it is a site of daily and biological reproduction (where we cook, make love, have arguments and raise children); it offers privacy and security in an unstable world. It can also function as a symbol of status or social belonging to some subgroup, as a sign of wealth and power, as a mnemonic of historical memory (both personal and social), as a thing of architectural significance; or it simply stands to be admired and visited by tourists as a creation of elegance and beauty (like Frank Lloyd Wright's Falling Water). It can become a workshop for an aspiring innovator (like the famous garage that was the epicentre of what became Silicon Valley). I can hide a sweatshop in the basement or use it as a safe house for persecuted immigrants or as a base for trafficking sex slaves. We could go on to list a whole raft of different uses to which the house can be put. Its potential uses are, in short, myriad, seemingly infinite and very often purely idiosyncratic.

But what of its exchange value? In much of the contemporary world we have to buy the house or lease it or rent it in order to have the privilege of using it. We have to lay out money for it. The question is: how much exchange value is required to procure its uses and how does this 'how much' affect our ability to command the particular uses we want and need? It sounds a simple question but actually its answer is rather complicated.

Once upon a time, frontier pioneers built their own houses for almost no monetary cost: the land was free, they used their own labour (or procured the collective help of neighbours on a reciprocal basis – you help me now with my roof and I will help you next week with your foundations) and acquired many of the raw materials (timber, adobe etc.) from all around them. The only monetary

transactions would have been those concerned with the acquisition of axes, saws, nails, hammer knives, harnesses for the horses and suchlike. Systems of housing production of this sort can still be found in the informal settlements constituting the so-called slums of many cities in developing countries. This is how the favelas of Brazil get built. The promotion of 'self-help housing' by the World Bank from the 1970s onwards formally identified this system of housing provision as appropriate for low-income populations in many parts of the world. The exchange values involved are relatively limited.

Houses can also be 'built to order'. Someone has land and pays architects, contractors and builders to construct a house according to a given design. The exchange value is fixed by the cost of raw materials, the wages of labour and payment for the services required to build the house. The exchange value does not dominate. But it can limit the possibilities of creating use values (there is not enough money to build a garage or a whole wing of the aristocratic mansion does not get built because the funding runs out). In advanced capitalist societies many people add to the existing use values of a house in this way (building an extension or a deck, for example).

In much of the advanced capitalist world, however, housing is built speculatively as a commodity to be sold on the market to whoever can afford it and whoever needs it. Housing provision of this sort has long been evident in capitalist societies. This is the way in which the famous Georgian terraces in Bath, Bristol, London and the like were built at the end of the eighteenth century. Later on, such speculative building practices were harnessed to erect the tenement blocks of New York City, the terraced housing for the working classes in industrial cities such as Philadelphia, Lille and Leeds, and the tract housing of the typical American suburb. The exchange value is fixed by the basic costs of the house's production (labour and raw materials), but in this case there are two other costs added in: first, the profit mark-up of the speculative builder, who lays out the initial necessary capital and pays the interest on any loans involved, and, second, the cost of acquiring, renting or leasing the land from property owners. The exchange value is set by the actual costs of production plus profit, interest on loans and capitalised rent (land price). The aim of the producers is to procure exchange values not use values. The creation of use values for others is a means to that end. The speculative quality of the activity means, however, that it is *potential* exchange value that matters. The builders of the housing actually stand to lose as well as to gain. Obviously, they try to orchestrate things, particularly housing purchases, to ensure that this does not happen. But there is always a risk. Exchange value moves into the driver's seat of housing provision.

Seeing the need for adequate use values going unmet, a variety of social forces, ranging from employers anxious to keep their labour force domesticated and to hand (like Cadbury) to radical and utopian believers (like Robert Owen, the Fourierists and George Peabody) and the local and national state, have from time to time launched a variety of housing programmes with public, philanthropic or paternalistic funding to provide for the needs of the lower classes at a minimum cost. If it is widely accepted that everyone has a right to 'a decent home and a suitable living environment' (as stated in the preamble to the US Housing Act of 1949), then, obviously, use value considerations are brought back to the forefront of struggles over housing provision. This political stance very much affected housing policies in the social democratic era in Europe and had spillover effects in North America and in selected parts of the developing world. The involvement of the state in housing provision has obviously, waxed and waned over the years, as has the interest in social housing. But exchange value considerations often creep back in as the fiscal capacities of the state are put to the test by the need to subsidise affordable housing out of shrinking public coffers.

There have been, then, a variety of ways in which the tension between use values and exchange values in housing production has been managed. But there have also been phases when the system has broken down to produce a crisis of the sort that occurred in the housing markets of the United States

Ireland and Spain in 2007–9. This crisis was not unprecedented. The Savings and Loan Crisis in the USA from 1986 on, the collapse of the Scandinavian property market in 1992 and the end of the Japanese economic boom of the 1980s in the land market crash of 1990 are other examples.¹

In the private market system that now dominates in much of the capitalist world, there are additional issues that need to be addressed. To begin with, the house is a ‘big ticket item’ that will be consumed over many years and not, like food, be instantaneously used up. Private individuals may not have the money up front to buy the house outright. If I cannot buy it with cash, I have two basic choices. Either I can rent or lease from an intermediary – a landlord – who specialises in buying speculatively built housing in order to live off the rents. Or I can borrow to buy, either getting loans from friends and relatives or taking out a mortgage with a financial institution. In the case of a mortgage, I have to pay the full exchange value of the house plus the monthly interest over the lifetime of the mortgage. I end up owning the house outright after, say, thirty years. Consequently, the house becomes a form of saving, an asset whose value (or at least that part of the value that I have acquired through my monthly payments) I can cash in at any time. Some of that asset value will have been sucked up by the costs of maintenance (for example, painting) and the need to renew deteriorated items (for example, a roof). But I can still hope to increase the net value I command as time goes on by paying off my mortgage.

The mortgage finance of a housing purchase is, however, a very peculiar transaction. The total paid out on a \$100,000 mortgage over thirty years at 5 per cent is around \$195,000, so the mortgagee in effect pays a premium of \$95,000 extra in order to acquire an asset valued at \$100,000. This transaction hardly makes sense. Why would I do this? The answer, of course, is that I need the use value of the house as somewhere to live and I pay \$95,000 to live in the house until I take full ownership. It is the same as paying \$95,000 rent to a landlord over thirty years except in this case I ultimately secure the exchange value of the whole house. The house becomes, in effect, a form of saving, a repository of exchange value for me.

The exchange value of housing is not, however, fixed. It fluctuates over time according to a variety of social conditions and forces. To begin with, it is not independent of the exchange values of surrounding houses. If all the houses around me are deteriorating or people of ‘the wrong sort’ are moving in, then my house value is very likely to fall even though I keep it in tip-top shape. Conversely, ‘improvements’ in the neighbourhood (for example, gentrification) will increase the value of my house even though I myself have invested nothing. The housing market is characterised by what economists call ‘externality’ effects. Homeowners often take action, both individual and collective, to control such externalities. Propose building a halfway house for released criminals in a ‘respectable’ neighbourhood of homeowners and see what happens! The result is a lot of ‘not in my back yard’ politics, exclusions of unwanted populations and activities, and neighbourhood organisations whose missions are almost exclusively oriented to the maintenance and improvement of neighbourhood housing values (good neighbourhood schools have a big effect, for example). People act to protect the value of their savings. But people can also lose their savings when the state or investors take over housing in a neighbourhood destined for redevelopment and let that housing deteriorate, thus destroying the market value of the housing that remains.

If I do invest in improvements, then I might want to be careful to do only those that clearly add to the house’s exchange value. There are lots of ‘advice books’ for homeowners on this topic (building a new state-of-the-art kitchen adds value but mirrors on all the ceilings or an aviary in the back yard does not).

Home ownership has become important for larger and larger segments of the population in many parts of the world. The maintenance and improvement of housing asset values have become important political objectives for larger and larger segments of the population and a major political issue

because the exchange value for consumers is as important as the exchange value earned by producers.

But over the last thirty years or so, housing has become an object of speculation. I buy a house for \$300,000 and three years later its value has appreciated to \$400,000. I can then capitalise upon this extra value by refinancing for \$400,000 and walk away with the extra \$100,000, which I can use as I wish. The enhanced exchange value of housing becomes a hot item. The house becomes a convenient cash cow, a personal ATM machine, thus boosting aggregate demand, including, of course, the further demand for housing. Michael Lewis in *The Big Short* explains the sort of thing that happened during the run-up to the crash of 2008. The childminder of one of his lead informants ended up owning, with her sister, six houses in Queens in New York City. 'After they bought the first one, and its value rose, the lenders came and suggested they refinance and take out \$250,000 – which they used to buy another.' Then the price of that one rose too and they repeated the experiment. 'By the time they were done they owned five of them and the market was falling and they couldn't make any of the payments.'²

Speculation in housing market asset values became rife. But speculation of this sort always has a 'Ponzi' element attached. I buy a house on borrowed money and the prices go up. More people are then attracted to the idea of buying into housing because of rising property values. They borrow even more money (easy to do when lenders are flush with money) to buy into a good thing. Housing prices go up even more, so even more people and institutions get into the game. The result is a 'property bubble' which eventually pops. How and why such bubbles in asset values like housing form, how big or small they are and what happens when they pop depends on the configurations of different conditions and forces. For the moment all we have to accept, on the evidence of the historical record (from the property market crashes of 1928, 1973, 1987 and 2008 in the United States, for example), is that such manias and bubbles are part and parcel of what capitalist history is about. As China has moved closer to adopting the ways of capital, so it has also become increasingly subject to speculative booms and bubbles in its housing markets. We will revisit the question why in what follows.

In the recent property market crash in the United States, about 4 million people lost their homes through foreclosure. For them, the pursuit of exchange value destroyed access to housing as a use value. An untold number of people are still 'under water' in their mortgage finance. This refers to a situation in which someone who purchased a house at the height of the boom now owes a financial institution more money than the house is worth on the market. Owners cannot get out of ownership and move without taking a substantial loss. At the height of the boom, housing prices were so high that many could not get access to use values without assuming a debt that would ultimately prove unpayable. After the crash, the financial drain of being stuck with a certain bundle of use values had remarkably dire effects. The reckless pursuit of exchange value destroyed, in short, the capacity for many to acquire and afterwards sustain their access to housing use values.

Similar problems have occurred in rental markets. In New York City, where some 60 per cent of the population are renters, many large rental complexes were bought out at the height of the boom by private equity funds looking to make a killing by raising rents (even in the face of strong regulatory laws). The funds deliberately ran down the current use values to justify their plans for reinvestment but then themselves went bankrupt in the financial crash, leaving tenants with deteriorated use values and higher rents living in fore-closed properties whose ownership obligations were often unclear (what you call to fix a non-functioning furnace in a housing complex in foreclosure is not at all obvious). Nearly 10 per cent of the rental housing stock has suffered from these sorts of problems. The ruthless pursuit of maximising exchange values has diminished access to housing use values for a large segment of the population. And to top it all, of course, the housing market crash triggered a global crisis from which it has proved very difficult to recover.

Housing provision under capitalism has moved, we can conclude, from a situation in which the

pursuit of use values dominated to one where exchange values moved to the fore. In a weird reversal the use value of housing increasingly became, first, a means of saving and, second, an instrument of speculation for consumers as well as producers, financiers and all the others (real estate brokers, loan officers, lawyers, insurance agents etc.) who stood to gain from boom conditions in housing markets. The provision of adequate housing use values (in the conventional consumption sense) for the mass of the population has increasingly been held hostage to these ever-deepening exchange value considerations. The consequences for the provision of adequate and affordable housing for an increasing segment of the population have been disastrous.

In the background to all this has been the shifting terrain of public opinion and public policy on the proper role of the state in the provision of adequate use values and basic needs to populations. Since the 1970s, a 'neoliberal consensus' has emerged (or been imposed) in which the state withdraws from obligations for public provision in fields as diverse as housing, health care, education, transportation and public utilities (water, energy, even infrastructures). It does so in the interests of opening up these arenas to private capital accumulation and exchange value considerations. Everything that happened in the housing field has been affected by these shifts. Why this shift to privatisation occurred is a particular question we are not at this point concerned to answer. All that I think it is important to record at this point is that shifts of this sort have occurred such that state involvement in housing provision (with its particular implication for how the use value-exchange value contradiction has been managed) has been radically transformed throughout much (though not all) of the capitalist world over the last forty years.

Obviously, I have chosen this case of the use value and exchange value of housing because it is a perfect example of how a simple difference, between the use value and the exchange value of a commodity in the market, can evolve into an opposition and an antagonism before becoming heightened into an absolute contradiction as to produce a crisis not only in housing but throughout the whole financial and economic system. It did not, presumably, have to evolve that way (or did it? – that is a crucial question we must ultimately answer). But that it did evolve that way in the United States and in Ireland, Spain and to some degree Britain, as well as in various other parts of the world, after 2000 or so to produce the macroeconomic crisis of 2008 (a crisis not yet resolved) is unquestionable. And that it was a crisis in the exchange value side that denied more and more people adequate use values in housing in addition to a decent standard of life is also undeniable.

The same thing happens to health care and education (higher education in particular) as exchange value considerations increasingly dominate the use value aspects of social life. The story we hear everywhere repeated, from our classrooms to throughout virtually all the media, is that the cheapest, best and most efficient way to procure use values is through unleashing the animal spirits of the entrepreneur hungry for profit to participate in the market system. For this reason, many categories of use values that were hitherto supplied free of charge by the state have been privatised and commodified – housing, education, health care and public utilities have all gone in this direction in many parts of the world. The World Bank insists that this should be the global norm. But it is a system that works for the entrepreneurs, who by and large make hefty profits, and for the affluent, but penalises almost everyone else to the point of somewhere between 4 and 6 million foreclosures in the case of housing in the USA (and countless more in Spain and many other countries). The political choice is between a commodified system that serves the rich well enough and a system that focuses on the production and democratic provision of use values for all without any mediations of the market.

So let us reflect, then, in a more abstract theoretical way on the nature of this contradiction. Exchange of use values between individuals, organisations (such as businesses and corporations) and social groups is plainly important in any complex social order characterised by intricate divisions of labour and extensive trade networks. Barter in such situations has limited utility because of the

problem of the 'double coincidence of wants and needs'. You have to have a commodity I want and have to have a commodity you want in order for simple barter to take place. Barter chains can be constructed but they are limited and cumbersome. Therefore some independent measure of the value of all commodities on the market – a single metric of value – becomes not only advantageous but necessary. I can then sell my commodity for some general equivalent of value and use that general equivalent to buy whatever I want or need from elsewhere. The general equivalent is, of course, money. But this takes us on to the field of the second contradiction of capital. What is money?

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