

Unravelling Capitalism:
A Guide to Marxist Political Economy

Joseph Choonara

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First published in May 2009 by Bookmarks Publications
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Typeset by Bookmarks Publications
Printed by Aldgate Press

ISBN 978 1905 192 502

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Introduction

THE failures of capitalism have provoked a growing interest in Marxist political economy. The aim of this work is to address that interest, introducing Marx's ideas and showing, at least in outline, how they can be applied to the capitalist system today.

As I write, at the end of 2008, the failures of capitalism are greatly in evidence. The collapse of the US housing bubble in autumn 2007 triggered a financial panic which is now becoming a new global slowdown. According to the International Monetary Fund we are already in the midst of the "largest financial shock since the Great Depression" of the 1930s. Nobody knows how deep the problems are or how long they will last, but three things are clear. First, a series of bubbles in the world economy masked what from a Marxist perspective has been apparent for many years: the poor health of the "real" economy compared to the sustained period of growth during the 1950s and 1960s. Second, those at the commanding heights of the US Federal Reserve, the British Treasury, and the boardrooms of banks and multinationals have no coherent theory of their own system. They swing from wild panic to glib optimism. Third, politics is, as Lenin wrote, "concentrated economics". Crisis exacerbates all the political divisions within the system.

Splits and infighting erupt both within the ruling class over how to solve the crisis and between different national ruling classes as they seek to shift the burden of

the crisis onto each other, intensifying imperialist conflict. Simultaneously every ruling class seeks to make its own working class pay for the crisis.

The recent acute failures of capitalism are compounding its longer term chronic failures. This is expressed most sharply by the fate of those in the poorer countries, now all drawn firmly into the capitalist sphere. According to the United Nations, about one billion people currently live on the equivalent of less than \$1 a day; 2.6 billion, 40 percent of the world's population, live on less than \$2 a day. Behind these dry statistics stand untold suffering and misery, matched only by the heroic resistance of workers in countries such as Egypt or Bolivia in recent years.

The horror of life for the majority in what is known as the Third World finds an echo even in the wealthiest parts of the system. In the US, the richest economy the world has ever seen, a fifth of all children are brought up in poverty (defined as families with less than half the median income). Workers suffer increased stress and long hours—for manufacturing workers the working year has increased by two weeks over the past couple of decades. Meanwhile a tiny minority have accumulated riches on a scale never seen before. The richest 1 percent in the US now receive over 20 percent of total income, twice their share in the 1970s. The sharp division between rich and poor is echoed in every society. The Third World boasts its own contingent of the super-rich, who form part of a global capitalist elite. Overall the richest one hundred millionth of the world's population own as much as the poorest half of the world's population.

It was in the context of capitalism's failure that a new period of resistance began in the late 1990s. The growing anti-capitalist sentiment became most visible in 1999 on the streets of Seattle, where protesters shut down the

World Trade Organisation meeting in the city, and outside the 2001 G8 summit in the Italian city of Genoa. But the movement on the streets was a reflection of far wider distrust of the multinationals and the power of those supposedly governing the capitalist system. For many of those involved in the anti-capitalist movement their initial concerns were economic inequality and the plunder of the Third World. Recently many have gone on to protest against the cycle of wars initiated by the US's rulers after 11 September 2001. Some are involved in debates over global warming and the threat to humanity this poses.

Each of these issues is tied to a much wider concern—to explain the workings and malfunctionings of the capitalist system, to understand its strengths and its vulnerabilities and ultimately to seek its overthrow. Marxism is not a recipe book that can magically solve any of these problems. But it is an indispensable set of tools at the service of a movement with these aims. The growing interest in Marxist economics is not misplaced.

Thanks to Chris Harman, Alex Callinicos, Mark Thomas and Jennifer Braunlich. I owe them each a debt for encouraging me to write this book, and for their corrections and suggestions at various stages of its production.



IN 1872 Karl Marx dashed off a letter applauding plans to publish a French edition of the first volume of *Capital* in serial form. “In this form the book will be more accessible to the working class, a consideration that outweighs everything else,” Marx wrote.

Capital is rather different from traditional treatises on economics. There are passages that drip with venom:

Within the capitalist system, all methods for raising the social productiveness of labour are brought about at the cost of the individual labourer. They mutilate the labourer into a fragment of a man, degrade him to the level of an appendage of a machine, destroy every remnant of charm in his work and turn it into hated toil.

The three volumes of *Capital* produced by Marx were written with a single purpose: to grasp capitalism’s “laws of motion” in order to hasten its overthrow. The main audience was the group in society that Marx saw as key to overthrowing capitalism—the emerging working class. But he feared that readers might be “disheartened” by their attempts to grapple with *Capital*. “There is no royal road to science, and only those who do not dread the fatiguing climb of its steep paths have a chance of gaining its luminous summits,” Marx concluded in his letter to his French publisher. The difficulty many readers face is not primarily due to Marx’s writing style but to his subject matter—capitalism.

Capitalism is a particular “mode of production”. Since humans emerged as a species, they have discovered different ways to work together to produce the things they need, different modes of production. At Marx’s funeral his close friend and collaborator, Frederick Engels, explained how Marx made this the basis for a wider understanding of how particular societies worked:

Just as Darwin discovered the law of development of organic nature, so Marx discovered the law of development of human history: the simple fact, hitherto concealed by an overgrowth of ideology, that mankind must first of all eat, drink, have shelter and clothing, before it can pursue politics, science, art, religion, etc; that therefore the production of the immediate material means, and consequently the degree of economic development attained by a given people or during a given epoch, form the foundation upon which the state institutions, the legal conceptions, art, and even the ideas on religion, of the people concerned have been evolved, and in the light of which they must, therefore, be explained, instead of vice versa, as had hitherto been the case.

Economics ought not to be a dry academic discipline explaining just one facet of our life in isolation. It is fundamental to what makes us human, describing how we meet our immediate needs, which in turn makes everything else that takes place in society possible. The particular way in which humans produce has varied enormously. Centuries ago our ancestors might have hunted, gathered edible plants or farmed. Today we harness great concentrations of advanced machinery to produce everything from food and clothing to televisions and fridges.

Perhaps the most striking difference between capitalism and what came before it is what happens to the things that are produced. In earlier societies people worked mainly to produce goods for their own consumption, but capitalism is different. The workers in a car plant cannot eat cars and forego food; the staff in a McDonald's restaurant cannot build houses or cars out of burgers. The goods produced under capitalism are not produced to meet immediate needs; they are produced to sell. As Marx writes on the first page of *Capital*, "The wealth of those societies in which the capitalist mode of production prevails presents itself as an immense accumulation of commodities."

Capitalism is a system of commodity production. Goods are produced for the market. But this very fact can conceal the workings of the system and disguise its "laws of motion". Consider a simple economic act under capitalism such as purchasing a newspaper at a corner shop. Money leaves your hands and in return you get a commodity. On the surface this looks like a relationship between things—a newspaper for some coins. But it raises an important question: where did the newspaper come from? Journalists, editors, photographers and designers produced its contents. The words were reproduced by print workers, set in ink on paper that was the result of its own process of production, ultimately deriving from wood felled by a logger in some distant forest. The printing press and the journalists' computers were produced by yet more groups of workers. What seems at first to be a simple exchange of "things" in fact unlocks an endless network of relationships between people and, in particular, between groups of workers who produce commodities.

In earlier societies the relationships between people who produced goods were obvious. In capitalism they

become hidden and mysterious. As Marx puts it, “a definite social relation between men” instead takes on “the fantastic form of a relationship between things”. Marx calls this phenomenon the “fetishism of commodities”. A “fetish” originally meant an object that was worshipped because people believed it contained a spirit or held some other mystical power. In capitalism things that are produced by humans seem to take on a life of their own—they become fetishised. There is a difference between this kind of fetishism and the mystical version. Under capitalism the powers that commodities seem to have are, in an important sense, real powers. Take, for example, money, a special “universal” commodity that can be exchanged for all others. The power of money is not like the power of a supernatural spirit that might frighten or awe people. Money *is* a source of real power. As Marx writes:

The extent of the power of money is the extent of my power. Money’s properties are my, the possessor’s, properties and essential powers. Thus, what I *am and am capable of* is by no means determined by my individuality. I am ugly, but I can buy for myself the *most beautiful* of women. Therefore I am not ugly, for the effect of ugliness, its deterrent power, is nullified by money. I, according to my individual characteristics, am lame, but money furnishes me with 24 feet. Therefore I am not lame. I am bad, dishonest, unscrupulous, stupid; but money is honoured, and hence its possessor. Money is the supreme good, therefore its possessor is good. Money, besides, saves me the trouble of being dishonest: I am therefore presumed honest. I am *brainless*, but money is the *real brain* of all things and how then should its possessor be brainless? Besides, he can buy clever people for himself, and

is he who has a power over the clever not more clever than the clever? Do not I, who thanks to money am capable of *all* that the human heart longs for, possess all human capacities? Does not my money, therefore, transform all my incapacities into their contrary?

Money even seems to attract more money, for instance through interest payments or through the ability of the super-rich to invest in hedge funds or gamble on stock markets. Money has real power, but the *reason why* money has these powers, the social root of its power, is mystified. The same is true of commodities in general.

Marx's writings, especially *Capital*, are complex because he sought to penetrate the surface appearance of capitalism and examine the social relationships between humans. Only these relationships can explain how the system works or indeed why it goes wrong.

At first glance capitalism seems hopelessly complicated. Phenomena such as inflation, the workings of derivatives and futures markets, or the nature of "structured investment vehicles" and "collateralised debt obligations" are perplexing for anyone encountering them for the first time. Faced with this, there are two temptations. The first is to explain these manifestations in their own terms: to accept the mystified surface appearance of capitalism. If stock markets and hedge funds seem to magically generate value out of thin air, some economists argue, this is what must happen. The second temptation is to simplify things down to the most basic level and ignore the more complicated aspects of the system.

Marx's method avoids both traps. He starts by recognising the mystified surface appearance: "All science would be superfluous if the outward appearance and the essence of things directly coincided." To discover the

“laws of motion” of capitalism a scientific approach is needed. For Marx that means it is necessary to *abstract* from the misleading appearance of things.

Here Marx’s approach is analogous to that taken by the great scientist Isaac Newton when he discovered his own famous laws of motion. These too were the product of abstraction. Newton’s first law of motion states that objects will move in a straight line at a constant speed until a force acts upon them. But a brick sitting on the Earth’s surface, when moved, will quickly grind to a halt. Newton had to ask what would happen if the effects of friction and air resistance were removed. This is an example of an abstraction. Strip out the surface features that confuse the picture and consider its most basic elements.

But abstraction is only half of the scientific method. Newton’s laws of motion have to explain not just abstract laws but also the way the world actually appears, the world in which bricks grind to a halt rather than continuing in straight lines at a constant speed. This means integrating the abstract laws of motion together with those of friction and air resistance to explain the actual motion of things. Similarly, Marx seeks to understand the most basic processes in capitalism *and* then to reconstruct ever more complex aspects of the system in his theory. Once this is done it becomes clear how the basic “laws of motion” generate the complicated surface appearance. As Marx writes in the *Grundrisse*, a draft of *Capital* in which he worked out many of his ideas, we arrive back where we started, but “this time not as the chaotic conception of a whole, but as a rich totality of many determinations and relations”.

Needless to say, this process is open ended. Not only does capitalism contain many phenomena that are difficult to grasp; it also changes as it ages and develops.

Theory can never keep pace with the changing world. This is one of the reasons why Marx notoriously found it difficult to actually complete any of his major works. *Capital* is no exception. Initially several volumes were planned. Only the first was published in Marx's lifetime. The second and third volumes were drawn together by Frederick Engels from unfinished manuscripts and published posthumously. It is in these often difficult pages that we can find the outlines of a revolutionary new understanding of capitalism.

CAPITAL begins with a simple question: what makes one commodity exchange for another? Why might a pint of milk cost the same as a copy of a newspaper? These two commodities have different uses and qualities. They are produced in different ways. So why are they worth the same amount of money? What is the connection between the two?

Marx argues that all commodities have two kinds of value. The first is simply its usefulness, or use-value. "The utility of a thing makes it a use-value," writes Marx. "But this utility is not a thing of air. Being limited by the physical properties of the commodity, it has no existence apart from that commodity." In other words, the thing that our two commodities have in common is definitely not their use-value. They have very different physical properties and very different uses. It is not possible to read milk or drink a newspaper.

The second kind of value is exchange-value, which is the amount of one commodity that you can get for another. In our example, one newspaper might exchange for one pint of milk so they have the same exchange-value. Exchange-value is not a reflection of use-value. The air we breathe is of enormous use to us because we would die without it but it has no exchange-value. The B-2 stealth bomber might have very limited use-value as far as most people are concerned but it has a very high exchange-value—it is worth about 500 million pints of milk.

So, where does exchange-value come from? We already know that when I go into a shop and exchange money for a commodity such as a newspaper or a pint of milk I am tapping into a vast network of social relationships that went into producing these commodities. Marx points out that all commodities have a certain important property in common: they are the product of a certain quantity of human labour. He argues that beneath the surface of exchange-value lies something else, a thing that he calls simply “value”.

The value of a commodity reflects the amount of labour that went into producing it. This value can be measured: “The quantity of labour...is measured by its duration...in weeks, days and hours.”

But what exactly is value? To return to an analogy we used in the previous chapter, here value is an abstraction that plays a role a bit like gravity does in Isaac Newton’s picture of the universe. We cannot see, touch or smell gravity. However, the concept allows us to understand why the planets go round the sun. The effects of gravity are real, as anyone falling down a mineshaft realises. Of course, there is a difference. Value is a product of human society, while gravity would exist regardless. But in a capitalist society value *appears* as an eternal, natural law shaping the world independent of our will, even though it is in reality bound up with a particular period of history.

So, in a capitalist society at least, value allows us to understand why two commodities have the same exchange-value. We cannot directly observe value but its effects are real. Capitalism is a system for drawing values together, equating them and exchanging them. Value is the one thing that can do this because it reflects the one property that all commodities have in common—the human labour that goes into producing them. Already

Marx has made a radical point. Commodities do not acquire their value because of the genius of the entrepreneur or the machinery brought together by the capitalist in the factory; commodities have value because workers create them.

To understand why value can play such a crucial role under capitalism it is necessary to consider one additional and well known feature of the system—competition. As we shall see, it is competition that actually enforces the law of value, for instance by forcing capitalists to behave as capitalists, however well intentioned they might otherwise be. Marx is sometimes accused of ignoring the “laws of supply and demand”, which, in mainstream accounts of competition, are used to explain changes in prices. In fact Marx recognised the importance of supply and demand, but realised that they could not account for value on their own. In a speech in 1865 he explained:

You would be altogether mistaken in fancying that the value of...any...commodity whatever is ultimately fixed by supply and demand. Supply and demand regulate nothing but the temporary *fluctuations* of market prices. They will explain to you why the market price of a commodity rises above or sinks below its *value*, but they can never account for the *value* itself. Suppose supply and demand to equilibrate, or, as the economists call it, to cover each other. Why, the very moment these opposite forces become equal they paralyse each other, and cease to work in the one or other direction. At the moment when supply and demand equilibrate each other, and therefore cease to act, the *market price* of a commodity coincides with its *real value*, with the standard price round which its market prices oscillate.

Supply and demand make market prices oscillate around value. They prevent these prices from deviating too far from value, but they do not *explain* value. Indeed, one of Marx's main criticisms of existing economic theory was its failure to explain the origin of value. Adam Smith and later David Ricardo, the two greatest figures in classical political economy who preceded Marx, came closest. For instance, Smith believed that in early societies, where the barter of goods directly produced by individuals predominated, exchange was explained by a labour theory of value. "Labour", wrote Smith, "is the real measure of the exchangeable value of all commodities." But, rather than follow the theory to its logical conclusion, Smith retreated into a view that saw machinery as generating "revenue" alongside labour. Ricardo came even closer to Marx's position, but never developed his labour theory of value into a consistent approach that could explain the dynamics of the system.

Later mainstream economists stepped back from trying to explain capitalism as a system at all. By Marx's lifetime capitalism had established itself as the dominant system of production in key areas of the globe. Its theoreticians were now far more interested in superficial fluctuations in prices and in covering up the crimes of the system than in discovering its fundamental laws of motion. This was reflected in a shift from the term "political economy", concerned with social and historical development of the system, to "economics" concerned with seemingly eternal mathematical laws of the market. It was left to Marx to build on and criticise Smith and Ricardo's political economy in order to develop a systematic labour theory of value.

There is, however, an obvious objection to Marx's theory: not everyone's labour is the same. Some people

work harder or more efficiently than others. As Marx writes, “Some people might think that if the value of a commodity is determined by the quantity of labour spent on it, the more idle and unskilful the labourer, the more valuable would his commodity be, because more time would be required in its production.” This problem is overcome if you consider “socially necessary labour time”: the labour time needed by a society to produce a commodity with the “average degree of skill and intensity prevalent at the time”. This is the kind of labour that capitalism draws together. It creates a world in which all artistry is removed from work by the application of machinery and the division of labour. It simultaneously creates a world of millions of “interchangeable” workers, each, from the point of view of the capitalist, the same as the others. Indeed, the fact that capitalism is a system of competition forces capitalists to treat labour in this way—failure to do so would mean the capitalists in question losing out to their rivals.

Of course, under capitalism some particular skills will be especially valuable and prized. One obvious example is the labour that goes into the production of expensive artworks. The value of a painting by Rembrandt clearly does not reflect the time he took to produce it. But then the labour of Rembrandt could never be reduced to socially necessary labour time because it is not labour that could be performed by anyone else; it could only have been performed by Rembrandt. What are prized in such artworks are the specific, concrete characteristics of the labour that went into producing it. The logic of capitalism is to subordinate everything to the market—so a Rembrandt painting is turned into a commodity to be bought and sold, but its price bears no relation to the labour time it contains. Similarly Marx writes that the poet Milton “produced *Paradise Lost* in the way that a

silkworm produces silk, as the expression of *his own* nature”, even if later “he sold the product for £5 and to that extent became a dealer in a commodity”. Marx contrasts this with the “writer who delivers hackwork for his publisher”. The “literary proletarian who produces books, eg compendia on political economy, at the instructions of his publisher” *is* subject to the laws of capitalist production, precisely because this kind of work could be performed by any of thousands of other wage labourers.

Marx is also aware that some “skilled labour” exists under capitalism. But this phrase can have two very different meanings. The first could be called “intense labour”. If a worker, by virtue of some special training or ability, can produce twice as much of a good or service than the “average” worker in a given period of time, then they clearly create more value for the capitalist (and may attract a greater wage too). But a skilled worker can also mean a “specialised worker” whose training allows them to perform certain roles.

Here it should be understood that the level of skill and the precise combination of mental and physical exertion that a worker brings to bear on their work vary throughout history.

Abilities that many or even most workers have today—literacy and numeracy, the ability to drive a vehicle or use a computer—would seem extremely skilful to a worker in Marx’s day (just as the manual dexterity of a mill worker in Marx’s day might impress many workers today). Capitalism does not want each worker to be identical or to be able to do every single job. From the point of view of the system it is a waste of money for all workers to have degrees in chemistry. But it does need a large number of interchangeable workers who *do* have degrees in chemistry so that it can subordinate laboratory work to the laws of value.

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