Let's Compost Capitalism

Commentary Session 4b

Essential features of capitalist production - what makes it go wrong

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Hello and welcome back to Let's Compost Capitalism.

In the last session we explored how capitalist production operates to achieve its primary objective of making a profit.

In this session we'll delve into the contradictory forces that make it go wrong, with the rate of profit falling, driving the system towards crisis – into slowdown, recession and slump.

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In this session we'll introduce:

Evidence that the rate of profit declines
What the rate of profit measures
Marx's explanation for the decline
How this explains the drive for growth
the contradictory pressures on investment
the inevitability of crisis
the additional impact of Covid

There can be little doubt that the capitalist system is in trouble.

Profitability, productivity and capital investment have been falling for decades.

In the attempt to keep the system alive, the amount of credit pumped into all sectors of the economy - corporations, governments and households - has ballooned.

As capitalist corporations have extended their production and markets throughout the world, the system as a whole has experienced a worsening series of cataclysmic economic and financial crises affecting more people in more countries.

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Marx's Law of the Tendency of the Rate of Profit to Fall helps to explain the inescapable problems that engulf capitalist society with increasing force.

You may be aware that this is controversial. Many economists, even those who otherwise profess to be Marxist don't agree with it. But we won't be going into all the arguments against it in this short course.

Marx himself thought that it – the LTRPF was his greatest discovery. I'll try to explain it simply.

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Measured by the rate of profit, the capitalist world system has been in decline for quite some time - despite some periods of recovery.

These two graphs track the decline from the late 1960s in the rich G20 countries, …and earlier in the 1950s, but from a much higher rate, in the so-called Emerging Markets.. … which include China and India..

slide 5. [The failing economy]

For an economy that exists to make and distribute profits things haven't been looking too rosy for quite some time.

Both the rate of profit AND the quantity have been in a nosedive for decades as you can see in these graphs.

Whilst the neo-liberal assault on regulation in the 80s and 90s and the period of austerity following the 2007/8 crash had some effect, it was only temporary.

Nothing, it seems can stop the rot. Not even with interest rates at or below zero and the invention of eye-watering injections of new credit under many differing schemes like 'quantitative easing'.

A few companies have made a great deal.

But, globally, capitalist production looks to be heading towards being a loss-making operation.

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But what ***is*** the rate of profit?

Last time we discovered that profit itself is appropriated from workers as unpaid labour. We looked at how the amount of profit can be increased or decreased….

And that increasing or decreasing the amount of profit made from the process of producing and selling commodities is the subject of the struggle between workers and employers.

Investors, of course, are interested in getting the best bang for their buck, maximising the return on their investment. They are always looking not just at the quantity of profit but the percentage return to see whether they could do better elsewhere.

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The calculation of the ***rate*** of profit and its importance for the rest of the story may get easier to understand if we resort to a little algebra.

Otherwise known as the return on investment, the rate of profit P compares the amount of profit (or surplus value) s …   to C,…   .. the total amount invested

Where C …   is the total of the amount invested in *variable* capital or labour - that's v … … plus the amount invested … in *fixed* capital c.

So $P = s/C$ or…   s/c+v).

And as you can probably? hopefully? see here, if the proportion of investment in technology, that's fixed capital, increases, … …. but the amount on labour, and the surplus value remains the same, the rate of profit must decline… .

If you don't get it, yet, don't worry, we'll have another try in a little while.

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Now let's look back further to see what's been happening since Marx discovered his law of the tendency of the rate of profit to fall.

As you can see from available figures, since the 1870s, despite ups and downs, the average rate of profit in so-called 'core' countries has been in decline.

This graph is borrowed from the paper titled, hopefully : 'The historical transience of capital'

So, although there are many who argue with the law, as you can see, the evidence looks to be irrefutable. It happens.

Why? Oh why?

slide 9. Once again on the LTRPF

The simple answer is that as we saw in the last session, competition in the marketplace forces capitalist producers to reduce the prices they charge.

And this forces them to compete for the investment which they hope will give them the edge, if only temporarily, helping them to drive up productivity and so reduce the cost of production. ..

So they can reduce the price and sell more of their products, attracting more revenue overall.

But, whilst it reduces prices it also drives down the rate of profit.

That's because ***relatively*** fewer workers, or more precisely, fewer hours of labour-power are put to work as the only source of value

the ratio of fixed to variable capital tips towards fixed capital   ,..

and the ***proportion*** of investment spent on workers declines. And, because it's only living, breathing workers that contribute surplus value, that means that the proportion of investment that creates surplus value declines and so the rate of profit declines.

And, whilst it has its ups and downs, this is the dominant effect.

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Just to reinforce the point….

The ratio of investment in fixed, or constant capital to the amount invested in labour, or variable capital, tips towards machines, .. … which, because they generate no new value contribute nothing to profit. So the rate of profit falls… ..

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At the same time, increasing the volume of production in a day … .. without increasing the quantity of labour, reduces the number of minutes or hours and so the amount of new value … …each box embodies or carries.

In due course, as the price falls, many more units must be sold to maintain overall income and the overall quantity of profit

More and more boxes must be churned out to keep shareholders happy and onboard.

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So, corporations which are constantly having to increase investment find themselves running up the down escalator of a reducing rate of profit.

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So, Growth …. in both the amount invested, …. and the units produced becomes absolutely essential to maintain, let alone increase the overall amount of profit.

This is the nub of the problem for capitalism.

It's why GDP – the measure of growth… …. – became the primary indicator of the health of the capitalist economy following the 1944 Bretton Woods Conference.

But, there's a limit. There's always a limit!

At a certain point, the rate of profit sinks to such a low level that it becomes pointless to continue investing.

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So Investment slows.

As it has done since the 1970s … - and especially since the 2008 crash.

Meanwhile

Many formerly profitable companies have turned into 'zombies',.. .. unable to generate enough income to service their debt, let alone turn a profit.

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The rate of growth slows too.

If the rate of investment falls, so the rate of economic growth must follow and slow.

All of these longer-term measures of slowing tell us that the system as a whole is aging.

Measures to offset the effects and causes of the decline become more drastic and less potent by the day, often reinforcing their own impotence.

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Let's take a closer look at the impact of this decline.

The following are key points from the World Bank's 2020 report **Global Productivity: Trends, Drivers, and Policies**

You're unlikely to find a more authoritative assessment of the dire state of the global capitalist economy anywhere. Let's take this piece by piece. …

The global slowdown had been under way for a decade after the 2008 crash… …well before Covid struck.

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The slowdown was widespread and dramatic,

[affecting around 70 percent of advanced economies and EMDEs, home to over 80 percent of the global extreme poor].

slide 18. The deceleration in Emerging markets and Developing economies was the steepest, longest, and most synchronized since 1970

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Because of and since the global financial crisis **many factors have deepened the slowdown**

Working-age population growth has decelerated,

educational attainment has stagnated,

and the pace of expansion [into more diverse and complex forms of production] has lost momentum

Natural disasters, wars, and major economic disruptions [such as financial crises and deep recessions] have tended to be accompanied by a large and protracted decline in investment and labor productivity.

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Adverse implications of COVID-19 for productivity. By which they really mean profitabiity

…The COVID-19 pandemic has plunged the global economy into its deepest recession since the Second World War.

Actually in the UK it was the worst since records began, with GDP crashing more than 20%, worse than any of the other rich, G7 countries and worse than in the EU. The International Monetary Fund – which is the sister of the World Bank - said the pandemic had plunged the world into a "crisis like no other".

…Uncertainty about the depth and duration of the pandemic has weakened domestic and foreign direct investment, and trade.

…[Steep income losses and disruptions to education may cause] we should expect an erosion of human capital and shifts in the labor markets.

Here they are worrying about the declining availability of skilled workers which has been a feature of the albeit limited recovery… and here too

…Mobility restrictions may slow the reallocation of workers away from low-productivity firms to higher-productivity ones.

…Governments and private sectors entered the pandemic with elevated debt levels.

More recent reports looking at the impact of Covid on debt use phrases like 'stands apart in the experience of the past half-century' , and 'exceptional by historical standards'. We'll look more at debt later in the course.

And finally …. …COVID-19-induced recessions may further strain corporate and public sector balance sheets [leading to weaker investment and deeper employment losses]. By which they mean it's not going to improve any time soon

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What needs to be done according to the World Bank? They say there's no silver policy bullet and then… .. offer up the usual list of measures - all designed to return the economy to planet-killing growth. Even if achievable, all of these would be catastrophic for the majority, in so many ways.

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To end this session let's, very briefly look at what Marxist economist Michael Roberts has to say

' Covid has left permanent 'scarring' of economies.

The policy tools of governments will be inadequate to restore prosperity for all.

We need to reset the economy through public control and ownership of the means of production with a global plan aimed at social objectives, not private profit'.

We'll unpick what that could mean later in the course.

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This could be a good moment to delve into Marx's detailed explanation of his LTRPF. You'll find it in chapters 13, 14 and 15 in Volume III of Capital. It's available free at Marxists.org.

Or you could search out some of the other, perhaps simpler explanations – for example Hadas Thier in A People's Guide to Capitalism.

In the following session we'll explore what can and has been done to counteract the tendency to crisis and to what extent these counteracting measures have been successful.