

Nyerere Resource Centre - COSTECH

Capital Accumulation and Crisis

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Short Course on “Financialization of Land and Ecology”

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OUTLINE OF THE LECTURE

- Introduction
- Accumulation of capital: why and what does it mean?
- Capitalism and crisis
- Bibliography

Introduction

- The first three lectures (out of five) of the program aim to provide a broad theoretical framework on financialization, economic crisis and restructuring of capital accumulation.
- To this effect, the lectures will broadly discuss capital accumulation, the dynamics of capitalist crisis, uneven development, imperialism and the emergence of financialization as the dominant characteristic of capital accumulation in recent times.
- The last of these three lectures will focus on the dynamic relationship between debt and domestic and global accumulation of financial capital and social, political and economic implications, comparing and contrasting Mozambique and Greece.

Accumulation of Capital – why and what does it mean?

- Why start the study of financialization with the accumulation of capital?
 - Capitalism is a specific and dominant mode of production, which evolves under specific historical conditions around how accumulation of capital takes place. The economic and social processes of reproduction of the capitalist society are rooted on the social, economic and political relations developed around the production of surplus value and its appropriation, utilisation and continuing reproduction.
 - The understanding of the expansion, evolution and changes that occur within capitalism can only be understood from a systemic understanding of how capitalism work.
 - Thus, we need to start from studying what capitalism is and how it reproduces.

Accumulation of Capital – why and what does it mean?

- What is accumulation of capital and how does it happen?
 - Accumulation of capital can be defined in three different but inter-related ways: (i) the expropriation and reorganization of resources and labour and their concentration under the control of capital, which involves the separation of labour from the ownership and control of main means of production and their transformation into wage workers; (ii) the expansion of productive capacities, and, at the same time, excluding many social groups from the access to and benefits from such capacities, except as labour or casual labour; and (iii) the expansion of the capitalist organization of production within the society (through privatization and public/private partnerships, leading to increasing commoditization, including that of labour power) to areas/sectors/activities where capital was excluded from before, like all non-economic activities that are crucial for social reproduction of labour and capital (and, therefore, transforming public into private goods and services, thus creating new profit opportunities for capital while excluding social groups, particularly the poor, from access to such goods and services).
 - We can see that there is an embedded and underlying contradiction in the process of reproduction of capital between the use value of commodities and the profit motive, which is important to understand the systemic and dynamic crisis of reproduction of capital (later).

Accumulation of Capital – why and what does it mean?

- What is accumulation of capital and how does it happen (cont.)?
 - Capital accumulation is a social, economic and political process that requires the destruction or submission of the commons to capital, its substitution by a collective that is commanded by capital, the transformation of labour into wage labour, the production and expropriation of surplus value and the realization of such surplus value as profits in the market. The simple version of the circuit of industrial capital, that starts after the separation of labour from the means of production, can help to explain such concepts:

Using money, M , own or borrowed, or both, a capitalist buys commodities, C (labour power or variable capital, v – labour power becomes a commodity once labour is separated from the main means of production and forced to sell its labour power for a living – and constant capital, c , comprised of machines, buildings and raw materials), which the capitalist combines in a process of production, pp , where surplus value, s , is added resulting in the newly formed capital commodities, $C' = C + s$. The capitalist needs to sell C' in the market to realize the surplus value (that was added during the production process) and pay the advancement of money, M , with which the circuit started, in money form, $M' = M + m$ (little m is the realization of surplus value, which can be used for savings, consumption of the capitalists, expansion of the existing circuit of capital, starting of a new one, paying of interests in the original M).

$$M \rightarrow C(v,c) \rightarrow pp \rightarrow C' \rightarrow M' \rightarrow C''[\text{Consumption} + C(v',c')],$$

Accumulation of Capital – why and what does it mean?

- What is accumulation of capital and how does it happen (cont.)?

The dark red part at the beginning and at the end of the circuit represents transactions in the market, where capitalists compete, and the black part of the circuit represents the process of production, where surplus value is generated.

Of course, this illustrates the circuit of accumulation of one capital in its simplest form. Every single capitalist is not accumulating independently of the overall process of accumulation and of the circuits of capital of the other capitalists – after all, they compete and they also cooperate, and the overall structures of accumulation define the context of class struggle between capital and labour and of the competition and cooperation between capitalists.

The class struggle between capital and labour both occurs in the process of production, where surplus value is generated, around the social and technical organization of production, as well as in the market, where surplus value is realized in money form, where capital and labour struggle about the dynamics of buying and selling labour power, and, therefore, of the redistribution of the realized surplus value. But the conditions of such redistribution are set in the production process.

In any case, the competition between capitalists and fractions of capital is strongly influenced by the class struggle conditions between capital and labour, and, on the other hand, the class struggle conditions between capital and labour are strongly influenced by the competition between capitalists and fractions of capital.

Accumulation of Capital – why and what does it mean?

- What is accumulation of capital and how does it happen (cont.)?

What is the surplus value? Any commodity has (exchange) value (labour time spent into the production of the commodity) and use value (what the commodity is useful for). Use value is not specific of commodities and does not necessarily require the intervention of labour (rain is a source of water, the Sun is a source of warmth and energy, and water, warmth and energy have clear use values). But (exchange) value is only produced by the intervention of labour power in the production process. So, only commodities – goods and services that are produced by the intervention of labour power – both have (exchange) value and use value.

Under capitalist relations of production, capitalist do not buy the labourer (as in slavery) or labour (which is the activity or work undertaken after labour power has been purchased). Capitalist buy labour power (capacity to produce or to labour). The labour power has the unique capacity to produce commodities, this is exchange value and use value. Thus, the use value of labour power is its ability to produce exchange value, and that is the reason why capitalists buy labour power. But what about the exchange value of labour power itself, which, if commodities exchange at their (exchange) values, is the exchange value of buying and selling labour power? The amount of exchange value produced by labour power out of its unique use value of producing exchange value bears no relationship to its own (exchange) value as a commodity. For successful capitalist accumulation, what is essential is that labour power bought with M produces more exchange value than it costs, so that M can become M' .

Accumulation of Capital – why and what does it mean?

- What is accumulation of capital and how does it happen (cont.)?

The amount of capital that is used to purchase labour power is called variable capital, v , to distinguish it from constant capital which is only preserved in the new product. The extra amount that labour power contributes, s , for surplus, is uncertain and variable, depending on the organization of production (intensity and length of the working day and labour productivity), which is a source of class struggle between capital and labour, and of competition between capitalists. Since the reproduction of capital depends on labour power producing more exchange value than it costs, capitalists are focused on the methods to do so in the process of production. Whether capitalists increase the length of the working day, reduce salaries, increase the rhythm and intensity of the working day, intensify control upon labour to reduce “wasted time” or increase labour productivity through technological innovation is not only a matter of individual choice, but is defined by the structures of accumulation: the capacity of labour to resist and oppose capital, the competition between capitalists, the extent of concentration and centralization of capital and the possibilities for innovation.

So, living labour is made up of $s + v$ and the (exchange) value of any commodity is made up of $c + v + s$, where v is the capital spent on purchasing labour power, s is the (exchange) value that labour power produces over and above v , and c is the constant capital that is simply preserved into the product but does not produce additional value. The advancement of v is a precondition of production, but s is a consequence of production and the social and technical relations around which production is organized and that define how hard, for how long and how productively labour can be made to work. So, there is no fixed relationship or distributional division between s and v .

Accumulation of Capital – why and what does it mean?

- What is accumulation of capital and how does it happen (cont.)?

Surplus value, s , can be produced as absolute surplus value, this is, the production of more surplus value but without modification of production processes and productivity (other than imposing discipline to work longer and harder), thus involving the lengthening of the time the worker is demanded to work for a given amount of v .

By contrast, the production of relative surplus value does not depend on the production of more value but the redivision of a given working day in favour of surplus value. This is achieved through reducing the value of labour power by increasing productivity directly in the wage goods industries or in the sectors that produce machines and raw materials, c , that are used to produce more goods and more more machines and raw materials.

Moving from absolute to relative surplus value requires that labour is displaced from the process of production and located as minders of machines and the emergence of the factory system, by which real subordination of labour to capital is established. This also leads to increasing the technical composition of capital, this is, then amount of c for any given v , which underlines critical social and economic processes in capitalism, such as concentration and centralization of capital, as larger firms become more productive than smaller ones, and eliminate the smaller ones from the process of production, access to finance, which also supports the concentration and centralization of capital.

Moving from absolute to relative surplus value has broader implications, namely: then transition from primitive to monopoly accumulation of capital, uneven development across regions and industries, and so on.

Accumulation of Capital – why and what does it mean?

- What is accumulation of capital and how does it happen (cont.)?

What is the value of the labour power, v ? The moral and historical value of the labour power reflects the norms of consumption and labour market conditions, determined and distributed differentially across monetary remuneration and the level and composition of use value consumption. This is reflected in the different food, health, education, pension, housing and sanitation, transport systems and so on, each deeply and uniquely rooted in different ways and to a different extent in capitalist production and exploitation. Thus, class struggle around the value of labour is embedded in the concrete and complex material functioning of capital itself. Therefore, it is clear that both c and s , as well as the relationship between them, or the exploitation of labour, are part and parcel of the material functioning and reproduction of capital and of the social struggles that they entail.

Accumulation of Capital – why and what does it mean?

- Primitive capital accumulation – where does capitalism come from and how does it begin?
 - Separation of labour from the main means of production and creation of a labour force that sells their labour power, or capacity to work, for a living.
 - Expropriation, redistribution and reorganization of the means of production – not necessarily the accumulation of new means of production, but mostly change in ownership and utilisation and the establishment of the social relationship between capitalist and wage workers – which separates labour from the means of production, creating wage labour from which surplus value is extracted, AND creating the class of owners of means of production, which purchase labour power for its unique use value of creating additional exchange value, or s.
 - The particular social and economic role of agriculture: source of “free” labour through expropriation of land, source of cheap subsistence (food) goods to guarantee the social reproduction of cheap labour even at low wages (for example, household, family production of food, generally by women and children, pass on to the family part of the costs of reproducing labour, or, in other words, costs of guaranteeing that labour as a decent access to basis consumption needs even as wages are lowered), and source of raw materials to feed industries.

Accumulation of Capital – why and what does it mean?

- Primitive capital accumulation – where does capitalism come from and how does it begin (cont.)?
 - Markets that develop in association with increasing and deepening of division of labour and diversification.
 - The role of the state: assist and guarantee expropriation (including through repression of any form of resistance); labour laws and organization that maximises extraction of absolute surplus value – long hours of work, low pay, unsafe working conditions; but also protecting the social reproduction of wage work and its increasing dependency on capital.
 - Emergence of uneven capitalism – depending, for example, on how land expropriation and tenure takes place, division of labour (local and international), colonialism.
 - Primitive capital accumulation is often characterised and dominated by the production and extraction of absolute surplus value.

Accumulation of Capital – why and what does it mean?

- Development of capitalist production:
 - Destruction of household and traditional production through competition, commoditization, expropriation and debt, leading to concentration and centralization of capital. However:
 - That are countertendencies to concentration and centralisation, namely the continuous emergence of small firms that through technological innovation can balance the tendency of concentration (larger firms) and centralisation (fewer firms);
 - Household/family production may reappear or survive in different forms and for different reasons (for example, to fill in market niches and respond to fragmented markets, to compensate for falling real incomes and destruction of social protection schemes that result from capital strategies to raise the rate of profits, as forms of social resistance, and so on). In any case, these will be part of the strictures of accumulation of capital and of social struggles that they create and feed.
 - Emergence of the wage working class: dispossession, putting out system (artisans working for someone else but as independent producers), the factory [or formal subordination of the worker to capital, the worker as an extension of the machine (real subordination), fragmentation of work into small repetitive tasks and the emergence of the labour market]
 - Centralised and specialised administration, banks, finance and large firms and towns . Monopoly capital is often associated with the transition from the production and extraction of absolute to relative surplus value.

Accumulation of Capital – why and what does it mean?

- Competition
 - Driven by the imperative of capital to accumulate.
 - Internal (production): squeezing of workers and innovation; External (exchange): competition in various markets – means of production, labour power, finance and finished products);
 - Increasing returns, centralization (destruction of smaller firms), credit and concentration of capital. New smaller firms emerge everyday if they can introduce new technologies and innovative products. Then, the process begins again
 - Accumulation generates competition and competition generates accumulation. Accumulate or die!

Capitalism and Crisis

- Capitalism expands because it sets free economic forces compelling every capitalist and, to a large extent, every worker to behave in a certain way that is consistent with and functional for reproduction and accumulation of capital, under specific historical conditions.
- However, capitalism is irredeemably flawed because systematically stunts human potential and subordinates human needs to profit motive, triggering contradictions and crisis that limit the scope of reproduction of capital.
- Crisis (meaning the inability of capitals to be restructured to achieve higher profitability) can occur due to many factor, originating from outside or from inside the circuit of capital: for example, social, political and technical turmoil, the fragility of the stock exchange to “bad news”, price crashes due to overproduction in key industries, the collapse of important financial institutions, instability related to foreign trade or political turmoil at home and abroad.

Capitalism and Crisis

- Crisis can always occur because of the tension between production of use values for profit and their private consumption, which occurs only in capitalism. Sustained accumulation requires realization of profit, not only consumption. Thus, if overproduction occurs, production may be curtailed and capital forced to operate at below capacity, with serious implications for employment, welfare and, depending on economic structures/linkages and the strategic relevance of the industries concerned in any given context, can impact on the economy as a whole (as division of labour and interactions between firms and industries can spread the crisis from one sector to the other, from one key component of the dynamics of reproduction of capital, say, expansion/contraction of the labour force and consumption, to another, say, ability to sell at a profit and willingness to expand capital).
- The crisis explodes when production has developed beyond the possibility of profitable realization (sale leading to realisation of profit). This can occur for various reasons and what matter, for analysis and for policy debate, is how the underlying cause of any capitalist crisis – the subordination of the production of use value to the production of surplus value – manifests itself (disproportionality, overproduction, underconsumption or the falling rate of profits).

Capitalism and Crisis

- Expansion of capital → Expansion of demand for labour → Wages increase → If Wages increase faster than productivity of labour (which is determined by competitive conditions), the rate of profit falls → Labour is expelled from the production process and production may be cut back (if, for example, the crisis of the rate of profits comes together with overproduction), or the capital/labour ratio may increase to compel increases in labour productivity, and wages may decline → Depending on whether expelled labour in one sector is absorbed in another or not, so general unemployment may or may not increase, the economy may or may not fall into recession.
- Attack on welfare state as an equivalent to labour expulsion from the production process, with the added advantage, for capital, of creating new profit opportunities through a profit motivated provision of social goods.

Capitalism and Crisis

- Crisis and concentration and centralization of both capital and labour, as well as centralisation of the state and strengthening of its relationship with capital – social austerity and repression of the labour movement to open the path for a recovery of the rate of profits.
- What happens with a crisis (short term recovery, significant reallocation of power and income, fundamental restructuring of dynamics and structures of capital, a social revolution, or whatever else) depends not only on economic questions, but also on political and ideological ones. The relationship between economic conditions and social movements and social change is a very complex one (Trump and Brexit, as well as the SYRIZA movement at its highest, are there to show opposite answers to crisis, given very different ideological and political circumstances).

Capitalism and Crisis

- Globalization: effect of capitalism's international reproduction and, consequently, the form taken by the laws of capitalist political economy at the current period (Fine and Saad-Filho, 2016)
- Uneven development: social inequality splashed into the geographical landscape and it is simultaneously the exploitation of that geographical unevenness for certain socially determined goals, as systematic product of previous capitalist reproduction at increasingly larger scale and more globally, and a fundamental premise of the future of capitalism.
- Underdeveloped markets/regions as sources of cheap labour/raw materials, rather than a global source of markets – this is partly the reason for uneven integration in the world capitalist economy.
- Under crisis, uneven development becomes less a means of uneven expansion than one of uneven decline and restructuring. So, what to expect about hypothetical future industrialization of least developed areas?

Capitalism and Crisis

- The state: classes and class struggle emerge from economic, social and political interactions in specific historical contexts. Classes and class struggle don't exist in abstract and independently of these interactions and specific conditions. In capitalist societies, political, economic and social interactions take place within specific structures of accumulation. This does mean that 1) the state is a pure tool of capital, nor that 2) in order to serve the society at large the state needs to be autonomous from the social, economic and political forces that interact and, in doing so, move society. The state is, therefore, not only heterogeneous but also the result of and a field of operation the same process of interaction that shapes classes and class struggle.
- The multi-tasks of the state: social reproduction of labour, capital and society (these go beyond the strictly economic, such as, for example, welfare, education, transportation, housing, health); but also involve finance, expropriation, redistribution, and so on. These activities are better understood within the overall study of the mode of accumulation and its tensions and contradictions.

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