

The Alternative to Capitalism

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Preface

According to conventional wisdom, in the 70 or so years following the Russian Revolution of 1917 the globe was divided into two ‘worlds’ – the ‘capitalist’ or ‘free’ world and the ‘socialist’ or ‘communist’ world. The principal characteristic of the ‘capitalist’ or ‘free’ world is that free market forces are supposed to shape its economies, while in the ‘socialist’ or ‘communist’ world the economies of the various countries were said to be planned.

These articles challenge this conventional wisdom. They argue that, given the nature of both capitalism and socialism, their coexistence is an impossibility. In today’s conditions, what both capitalism and socialism have in common is their all-or-nothing quality. In other words, modern capitalism is necessarily a worldwide system of commodity production based on wage labour, and the level of production in all parts of the world is ultimately determined by the need of productive enterprises (no matter whether they are owned by individual entrepreneurs, are joint-stock companies or are state-managed concerns) to compete with rivals on the world market. Conversely, socialism could only come into existence by replacing capitalism throughout the world, so as to abolish the world market and institute a global system of production for use and not for sale.

No matter how sweeping the political changes which

occur within national frontiers, as long as world capitalism and nation-states persist, those who make decisions about production are compelled to respond to the forces of competition which are integral to the world market. This applies even in a country where all individual entrepreneurs have been eliminated and where all the means of production have been taken over by the state. Whatever the political coloration of the leadership in such a country, the state still has to act as a capitalist, owing to the pressures exerted by the world market system on that country's productive forces. Indeed, even in countries such as Britain, where private enterprise still operates, those same pressures exerted by the world market system have forced the state to take an active role in decisions which affect production. Thus even in avowedly 'capitalist' countries, the state has increasingly come to the fore, while in the supposedly 'socialist' countries the state actually became the capitalist for which the most accurate description is 'state capitalism'.

1. What is Capitalism?

To say that state capitalism is a variety of capitalism may be a tautology, but it brings out the need to be clear about what capitalism is before embarking on any discussion of what state capitalism may be. In this chapter we shall identify the essential features of capitalism and then go on to discuss state capitalism and the nature of the capitalist class. We shall be describing in Marxian terms, concisely but thoroughly, the economic mechanism and set of social relationships that constitute capitalism. We believe Marx's analysis to be in general still valid even if, the institutional forms of capitalism have changed from those of Britain in the nineteenth century which Marx studied. We can assure readers who may initially find parts of this chapter difficult that if they persevere they will acquire a basic understanding of the key concepts in Marxian economics which will not only allow them to follow better the other, less theoretical chapters but will also equip them to tackle the many other books and articles written these days from a general Marxist theoretical standpoint.

We shall suggest that, apart from being a class society, capitalism has the following six essential characteristics:

1. Generalised commodity production, nearly all wealth being produced for sale on a market.
2. The investment of capital in production with a

- view to obtaining a monetary profit.
3. The exploitation of wage labour, the source of profit being the unpaid labour of the producers.
 4. The regulation of production by the market via a competitive struggle for profits.
 5. The accumulation of capital out of profits, leading to the expansion and development of the forces of production.
 6. A single world economy.

Generalised commodity production

Capitalism is an exchange economy in which most wealth, from ordinary consumer goods to vast industrial plants and other producer goods, takes the form of commodities, or items of wealth that have been produced with a view to sale on a market.

Commodity production existed before capitalism but in previous societies was marginal to the predominant form of wealth production. In previous societies, such as feudalism, wealth was principally produced for direct use and not for sale on a market. Wealth was used by those who produced that wealth, or else by the privileged classes who lived off the producers and acquired wealth from them by the actual or threatened use of force. In capitalism the roles of production for sale and production for use are reversed; it is now production for use that is marginal, while the great bulk of wealth is produced for sale. In particular, the elements needed for producing wealth (raw materials, machines and human mental and physical energy) become commodities.

In an exchange economy, wealth is not produced for its own sake. Wealth, or useful things fashioned or

refashioned by human beings from materials found in nature, is not produced to be directly available for some individual or social use, but is produced to be exchanged. To be exchangeable an item of wealth has to be of some use, otherwise no one would want to buy it, but it is not for this use value that it is produced. It is produced to be exchanged for other items of wealth, for its exchange value.

This distinction between use value and exchange value, between *wealth* and *value*, is a key concept for understanding how capitalism works. Value is not something completely distinct from wealth since it is the same labour which fashions or refashions the material found in nature into an object of use to human beings which, in an exchange economy, gives that object its exchange value. Value is a characteristic of wealth in an exchange economy, the form assumed by wealth in such an economy.

To say that it is labour that gives wealth exchange value is merely to say that this is how the labour involved in producing useful things expresses itself in a society where wealth is produced for sale rather than for use. It produces exchange value as well as use value. The labour theory of value can be seen as a corollary to what might be called a labour theory of wealth. Most wealth, as something useful that satisfies a human want, is produced by human beings transforming nature by their labour. Certain things, it is true, are useful to human beings without being the product of their labour - the sunlight and the air we breathe, for instance - but these 'gifts of nature' are precisely the only items of wealth which have no exchange value, are 'free goods' in an exchange

economy.

The labour theory of value is not so much a theory of price as a theory of the nature of wealth in an exchange economy. Even so, it is possible to construct a theoretical model of an exchange economy in which commodities would exchange in proportion to the amount of average social labour-time needed to produce them. In such a model, commodities would be produced by independent producers owning their own means and instruments of production and exchanging their products for those of other producers in order to acquire the things they needed to live. This model is not, of course, capitalism, but it bears a resemblance to the type of exchange which took place on the margin of pre-capitalist societies.

In capitalism, on the other hand, where most of those engaged in production do not own means and instruments of production and where exchange takes place not simply to acquire use values but with a view to profit, commodities do not in fact exchange at their labour-time values. Rather they tend to sell at a price calculated by adding to their average social cost of production a percentage mark-up representing the going rate of profit. However, the sum total of the prices of all the commodities is still equal to their total value, those selling above their value compensating, as it were, for those which sell below it. In other words, in capitalism, the value price equation posited by the labour theory of value has validity only at the level of the whole economy.

Value is not measured directly in units of labour-time but in units of money. This is because the exchange value of a commodity is not the actual amount of labour-time embodied in it, but only that which is on average necessary

to produce it, an average which can only be established through exchange, on the market. Money originated from barter, the simplest form of exchange, as the one commodity in which the exchange value of all the other commodities could be expressed and measured. To perform this role money itself had to have exchange value derived from being a product of labour; which enabled the money-commodity to act also as a store of value. Money still performs both these roles today, although this is heavily obscured by the subsequent evolution of money away from its original terms (principally gold and silver) to symbolic coins and paper notes.

In capitalism money comes to be the universal unit of economic calculation. It is, in fact, the only possible such unit, since there is no other way of comparing the endless variety of different kinds of wealth. Use values cannot be compared as such; only exchange values can and it is these that in the end money is measuring.

Investment of capital in production with a view to profit

We are now in a position to attempt a preliminary definition of *capital*, clearly a key concept for understanding the system to which it has given its name.

Capital, as a feature of an exchange economy, is a sum of exchange values, a stock not of wealth as such but of commodities, of wealth that has been produced for sale. Historically, capital has been regarded as being a stock of the money-commodity and it is easy to see why: capital is a sum and a stock of value of which money is both the measure and a store. But capital can also be, and generally is under capitalism, a stock or collection of other commodities whose exchange value is merely measured in

monetary units.

Capital is no more simply a collection of exchange values than it is simply a stock of wealth; it is a collection of exchange values that is used to yield a monetary income. Capital is money which generates more money, or rather value which generates more value.

Capital, as money invested for profit, existed before the development of capitalism. Money lent for interest (usurer's capital) yielded its owner an income. Similarly, money invested in the sort of trading which involved buying in cheap markets or simply plundering and then selling in dear markets (the early form of merchant's capital) also brought in an income. But neither this interest nor this profit came from the capital having been invested in production. Certainly, ultimately, their source could only have been the labour of some producers, but this was not their direct source.

These two forms of capital played an important role in creating one of the historical preconditions for the development of capitalism as a system wherein capital is invested in production: the concentration into the hands of a small minority of sums of money looking for a profitable investment outlet. When the other preconditions were met - the formation of an international market, a certain development of the techniques of production permitting production on a larger scale than previously, but above all the separation of the producers from the means of production and the creation of a landless proletariat - this money was able to find the profitable outlet it was seeking by being invested in the actual production of wealth.

Thus, once capitalism has developed, capital can be

defined either as money invested in production for profit or as wealth used to produce other wealth with a view to profit, both of which express the same idea from a different angle. A more rigorous, if more difficult, definition, whose full significance we will see later, would be that capital is value invested in production with a view to increasing itself, or self-expanding value.

Exploitation of wage labour

What is the source of the profit which accrues to capital invested in the production of wealth? How does this increase in exchange value, this extra or surplus value, come about?

The usurer obtained his profit out of the revenue of the persons he had lent his money to, and the merchant adventurer acquired his profit by cheating or plundering direct producers or other traders, but profit arises in a completely different way when capital is invested in the production of wealth. It is created within the process of production itself.

Under capitalism, as we saw, the elements needed for producing wealth become commodities; not only the raw materials and the machines but also the labour power of the producers. Labour power, or the mental and physical energy of human beings, has the particular property of being able to produce wealth when applied to nature-given materials. This property of labour power expresses itself in an exchange economy in the capacity to create new exchange value.

Labour power is not to be confused with labour, as is frequently done in everyday parlance when we talk about the 'labour market' and 'selling our labour'. Actually, it is not labour which is bought and sold on the labour market

but labour power, the capacity to work. In fact labour, or work, cannot be sold since it cannot exist separately from the product in which it is embodied. Labour power is not the same thing as the product of labour. Indeed, it is precisely the difference between the values of these two separate commodities that is the key to the origin of surplus value.

The exchange value of labour power is roughly the cost of training, for their own purpose and benefit. The product and value which labour power produces belong to the purchaser of the labour power in question.

The exploitation of wage labour by capital is a defining feature of capitalism, reflecting the fact that capitalism is a class-divided society in which one class monopolises the means of production while the other, the vast majority, is forced to sell its mental and physical energies for wages in order to live. Capitalism is an exchange economy involving the buying and selling of labour power, a social system in which productive activity takes the form of wage labour. Wage labour and capital are two sides of one and the same social relationship. Wage labour, under conditions of generalised commodity production, inevitably produces capital as a sum of values accumulated out of surplus value, while the means of production can only function as capital by exploiting wage labour.¹ In this sense, capitalism could just as easily have

1 '...the relation between wage labour and capital determines the entire character of the mode of production. The principle agents of this mode of production itself, the capitalist and the wage worker, are to that extent merely personifications of capital and wage labour' (Marx, 1919 (vol. III) p. 1025). 'Capital and wage-labour (it is thus we designate the labour of the worker who sells his own labour power) only represents aspects

come to be called ‘the wages system’ as ‘the capitalist system’.

Production regulated by the competitive struggle for profits

An exchange economy such as capitalism implies not only that the various different kinds of wealth are produced by different producers in different places of work (a technical division of labour) but also, more importantly, that decisions about production are made by a number of autonomous economic units acting without reference to each other. Before goods can be exchanged they have to be regarded as belonging to some person, group of persons, or other subdivision of society. Exchange therefore implies the non-existence of the common ownership of the means and instruments of production that is the only basis on which decisions about production could be made in a conscious coordinated manner.

In capitalism the ‘autonomous economic units’ which make decisions about production are profit-seeking exchange institutions which we shall call *enterprises*. An enterprise is an institution owning and controlling a separate capital. An enterprise may be a single individual or it may be a joint-stock company, a nationalised industry or even a workers’ cooperative. It is not its internal structure that is important for understanding the role of the enterprise in capitalism but rather the fact that it represents – incarnates, if you like – a separate capital, a separate sum of values seeking to expand itself through being invested in production.

All enterprises, whatever their legal status or internal

of the self-same relationship’ (Marx, 1979, p. 1006).

structure, aim to increase the value of the capital they incarnate. This search for profit brings them into conflict with other enterprises, not just those engaged in producing the same or similar products but with every other enterprise, or rather with every other capital seeking to increase its value.

The origin of profits is, as we have seen, the unpaid labour of wage workers but this is not how it appears to enterprises. To them, profits are the difference between their production costs and their sales receipts and so appear to be made not in production but on the market. There is a sense in which this is true. The equation $\text{surplus value} = \text{profit}$ is only valid for the economy as a whole, and it is the operation of the market which determines the share of surplus value going to the various competing enterprises as profits. Surplus value, in other words, is created in production but is won on the market as profits.

The total amount of profits that can be made by all enterprises is thus limited by the total amount of surplus value that has been produced, but it is not the case that each enterprise makes profits equal to the amount of surplus value created by the workers it employs. If this were so, then, since labour alone is the source of new exchange value, labour-intensive industries would make the most profits; capital would therefore tend towards such industries and there would be no incentive to introduce labour-saving machines; which is patently contrary to what is observable under capitalism.

What happens in fact is that the competition between capitals tends to lead to each capital making a profit in proportion to its size; there is a tendency for the rate of profit - the ratio of the increase in value to the value of the

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original capital - to be the same in whatever line of production it is invested. It is as if the total amount of surplus value produced in all enterprises were pooled before being distributed to the individual capitals and as if enterprises, as incarnations of these capitals, competed to draw from this pool as much profit as they could. It is in this sense that the struggle between enterprises to make profits is in the end a struggle against every other enterprise: the more profits one enterprise makes the less there is left for the others.

If this competition between enterprises were completely unrestricted - if capitals could move rapidly and freely from one line of business to another - then each enterprise would make the same rate of profit on its capital; the amount of its profits would be directly related to the size of its capital. Such completely free competition and movement of capital has, of course, never existed, for political reasons (intervention of states) as well as for technical (minimum size of certain industrial plants) and economic (price-fixing and other monopolistic practices) ones. But it is still a tendency under capitalism as a system of competing capitals producing for sale on a changing market too large for any of them to control. Capitals, therefore, only tend to make the same rate of profit.

This tendency towards the averaging of the rate of profit explains why under capitalism commodities do not sell at their labour-time values but rather at a price equal to their cost of production plus a margin sufficient to allow the average rate of profit to be made on the total capital invested in their production.

In capitalism, then, decisions about production are in the hands of separate, competing capitals, be they large or

small, privately owned or state controlled. However, this does not mean that production is completely unregulated. In any society there has to be some mechanism which regulates and coordinates decisions about production, otherwise it could not survive. In capitalism this regulating and coordinating mechanism is the market through which all enterprises are linked in a network of buying and selling transactions. This is the case because all enterprises enter the market not only as sellers of what their workers have produced, but equally as buyers of the elements for producing wealth (raw materials, machines, labour power). It is through prices, and particularly through changes in prices, that the market influences the decisions of enterprises concerning production. The worldwide market under capitalism is not fixed and stable. Even if it tends to expand in the long run, its condition at any particular time is unpredictable and liable to fluctuate.

Each enterprise makes its decisions about what, how much and where to produce, how many workers to employ, the stocks of raw materials and finished products it should hold, what kinds of energy to use, whether or not to expand productive activity and so on, in the light of the market prices of the commodities it has to buy or sell and on the basis of uncertain predictions as to how these might change. If the selling price of a commodity increases, then the enterprises engaged in producing that commodity will initially make bigger profits and so will be induced to increase their output; new enterprises may even enter the industry. On the other hand, if prices - and hence profits - are falling, then output will be curtailed.

The equilibrium position which the operation of the market tends to bring about (but which, of course, is never

reached since the market is always changing) would be one in which the productive resources of society would be distributed in such a way that the enterprises engaged in producing the multitude of different items of wealth each made the same rate of profit on their capital.

We are not saying that the market is entirely independent of the actions of men and women, even if it does confront them as an external force. The market itself is in the end only the sum of the decisions to buy and sell made by enterprises and other actors in the capitalist exchange economy (wage-earners, states). What we are saying, however, is that individual decisions of this sort bring about results which no one has consciously willed and which narrowly limit the freedom of choice of enterprises — and indeed states — when making subsequent decisions about production.

Adam Smith spoke of this unplanned regulating and coordinating mechanism as being the work of an ‘invisible hand’; Karl Marx called it ‘the law of value’; popular language simply speaks of ‘market forces’. All three expressions bring out the same idea: that production under capitalism is not consciously coordinated, but is determined by forces operating independently of people’s will. Even though market forces are ultimately the result of a multitude of individual human decisions, nevertheless they confront people as external and coercive economic laws.

The accumulation of capital out of profits

The battle of competition between enterprises is fought by cheapening commodities, by enterprises trying to increase their share of the market by underselling their competitors.

It is true that, if they get the chance, enterprises will

increase their profits by raising their prices, but they are not normally in a position to do this and, even when they are, it is not a lasting situation (unless supported by a state). Nor can enterprises increase their profits by permanently depressing the prices of the elements of production they buy (raw materials, wages, etc.), though again they will do so if, and for as long as, they get the chance.

Given, then, that enterprises normally have to accept the prices established by the market, the only way that they can compete against their rivals is to reduce their costs of production through improving the productivity of their workforce. Productivity is a measure of the number of articles of wealth as use values that can be produced in a given period of time. An increase in productivity means that more can be produced in the same period so that the cost per individual article, or unit-cost, falls. In value terms, the price of the commodity falls because less average social labour-time is required to produce it.

Productivity can be improved in a number of ways: by getting the workers to work more intensively, by a better organisation of the process of production, but above all by employing more and better machines and techniques of production.

So the battle of competition comes to be fought by enterprises increasing their productivity so as to be able to sell more cheaply than their rivals. Whether an enterprise adopts an aggressive or a defensive approach in this battle, the result is the same: all enterprises are forced to invest in new and better machines. Once one enterprise has put itself in a position to undersell its competitors through having adopted some new cost-reducing technique, then