

What is the capitalist strategy?

Hillel Ticktin looks beneath the hype about 'recovery' to expose the bankruptcy of the ruling class



Swallowed up: small and medium-sized firms

Hardly a day goes by when the broadcast media do not talk of the recovery and the tabloid newspapers attempt to document it with headlines and photographs. At the same time, governments continue to maintain an official policy of austerity. Expenditure continues to be restricted and private investment remains static. In the entire four-year period from the official downturn in 2008 down to the present, money has continued to pile up in the corporations. If one substituted a period during the great depression of the 30s, it would not look very different.

It seems that the top 2,000 global companies had \$4.5 trillion of gross cash in 2013, but spending this year will decline by half a percent on top of a one percent decline in 2013. The situation for the third world is worse. Capital expenditure by emerging-market companies is going down, declining by four percent in 2013 and another four percent expected this year.¹ Much of actual expenditure relates to metals, mining and energy, and hence to the third world - even if the companies like Vale, Rio Tinto Zinc, BHP Billiton and the oil companies are first-world.²

The euro zone is in the gravest trouble, with deflation on the cards. An editorial in the *Financial Times* cites the International Monetary Fund, which refers to the low growth, high debt and low inflation there. It then continues, crucially: "Even without such instability, vulnerable countries are, on present policies, condemned to needlessly high unemployment for many, many years."³ It goes on to call for quantitative easing and hence the buying of sovereign bonds. Since such buying amounts to helping fund government deficits, this would be controversial, especially in Germany.

The United States is in a better position, in that there is positive jobs growth and overall growth in GDP. However, the situation is anything but rosy. Although employment is picking up, skilled workers who lost jobs disproportionately in the downturn are not getting them back. Long-term unemployment, and “a declining participation in the labour force” have been a feature of the US labour scene. Wages are static.⁴

The actual growth level is low - something already true before 2008. This is a feature widely discussed among newspapers and journals. They point to declining levels of participation in the labour force and lower immigration, but also to lower levels of productivity per worker.⁵ *The Economist*, conservative as it is, naturally argues that less regulation and lower corporate tax would raise investment and boost productivity.⁶ Clearly productivity would rise with more investment all round, and government spending in areas additional to infrastructure could make a big difference. However, the failure of the capitalist class to invest, and continuing government inability to increase investment itself, is a feature of both this and the last depression.

This failure has been given much greater publicity with the decision of Lawrence Summers, former economic advisor to Barack Obama, to revive the discussion around the question of stagnation,⁷ as put forward in Keynesian theory. It was subsequently taken up by Paul Krugman and other Keynesians.⁸ The argument, as put forward by Keynes and his followers, is simplistic in real terms, however sophisticated the economic language. It basically states that, given inequality in incomes and the tendency of the rich to save, demand for goods and services will be restrained. As income inequality is soaring, demand within the economy can only be limited. The conclusion is that wages and salaries should be raised and incomes of the rich consequently taxed.

The point, though, now put forward by Summers and endorsed by Krugman, is that the economy is chronically in trouble as a result and needs ‘bubbles’ to boom at all.⁹ Krugman states that the economy has been chronically depressed since the time of Reagan, only saved by so-called bubbles, amounting to special stimuli.

The theoretical problem with these statements is that they assume a number of things and ignore others. Firstly, they presume that the rich only exist as atomised entities deciding to save and not spend. In reality the rich are only rich because they own businesses or other wealth-creating - or rather wealth-controlling - entities, which provide them with their income. The decision to spend is not about buying luxury items, but re-investing in their own or other firms. In other words, the question is posed in the wrong form.

Secondly, it is posed in the usual terms of an abstracted economic structure. It is assumed that the rich, who, of course, are part of the ruling class, will agree to be taxed in order to increase government expenditure and to redistribute income, rather than organise a powerful opposition. Thirdly, the specific way in which the surplus is pumped out of the population is wholly ignored. The role of the cold war, and so the acceptance of the state in what is called military Keynesianism, is not taken into account. The flow of money from the third world to the imperial power is also avoided and its particular role

is left out. Finally, the change of strategy to one of finance capital is regarded as a technicality and hence its specific and controlling role is not discussed.

Basically, the bourgeoisie is not investing for a number of reasons. In the first place, because there is no medium- to long-term perspective which allows it to do so. Given the depressed state of the economy, even short-term investment of substantial amounts may be dubious.

In the second place, it is not prepared to go for long-term investment which will end up with full employment. The change mentioned by Krugman referred to above reflected the decision of the bourgeoisie to end the post-war settlement, and ensure efficient controls over labour. It is not going to return to full employment, with the government playing a substantial role in ensuring an economy that provides for it. The government and the central banks are explicit in setting a target of a minimum of 5% unemployment, which has in practice meant double that figure.

In the third place, the policy of austerity means that the state is not providing the opportunities or the guarantees normally required. Underlying the problem is the fact that we do not live in the 19th century with a high level of competition, where firms control the market and further investment involves special conditions, requiring both innovation and substantial re-equipment. Both are less necessary under conditions with very limited competition.¹⁰

The upshot is that there is no chance that the situation will change in the short term. In the US, the Republican Party is opposed to government expenditure on, for example, subsidies for private firms, and the Tea Party endorses that line.

Ruling class strategy

What is the strategy of the ruling class at the present time? It has learned the lessons of the failed war in Iraq, but it cannot invest and it imposes austerity. Is the ruling class now supporting depression as the economy of the future? Its current line follows and partially advances the route taken when it switched to finance capital at the end of the 70s.

The fundamental way in which capital rules is through its control over the surplus product, which involves maintaining the form of wage labour. That is done through the two economic forces of commodity fetishism and the reserve army of labour. In mature capitalism they suffice to ensure the stability of the system. However, as capitalism declines, they become less effective. Working class opposition, trade union action, the scarcity of skilled labour at various times, uncontrolled booms, the need to get political support, and the welfare state have eliminated much of the form of a reserve army of labour. In parallel, the apparently inhuman rule of the commodity, or the market - standing, as it appears, above human control and people's needs - is no longer omnipresent or accepted as necessary. Government control, administrative regulation of

the market, nationalisation of sections of the economy, centralised administrative control over money - all have gone through various phases.

Whatever the reality at any one time, it is clear that the support for the market is an ideology and that an alternative is possible. Today the question is bitterly contested, with conservatives trying to privatise as much as possible. The idea that management could be elected, that there is no need for income inequality or indeed even private property is in the minds of the working class. History has ensured that these concepts cannot be wiped out. The issue is more profound than that. Apart from the examples of non-market forms given above, modern economies are ruled by giant monopolies, which contract out more or less of their work, under their supervision. The idea of the little entrepreneur inventing and taking to market some successful new product or process every so often is of secondary importance. Modern economies have very limited competition, usually confined to small firms, which are themselves subject to their larger customers.

Competition is limited, and the unemployed do not constitute a genuine reserve army of labour. How can capital rule if its fundamental form is itself changing? Nor is it just the overall market and control over labour that has changed. There is no way around the need for medium- to long-term 'planning', both within the central governmental administration and within large firms. The discussion on bureaucracy in the 30s provided the groundwork for the modern form, which has evolved further. The intra-form relationship is direct, with a series of arrangements like mission statements, a clear promotion procedure, departmental ethos and, above all, targets.

In turn, these are distorted by workers trying to be successful in their positions. There is a necessary conflict between the needs and practices of workers and the demands of management. This is well known, though not necessarily well understood. 'Leadership' is a contemporary slogan, but leadership can only work if there is a common interest, as opposed to a work ethic based on economic force. In practice, there is a compromise, where management accepts what is possible and workers limit their work in depth and extent. Management can use promotion, pay, threats and loyalty to the firm to ensure targets are met. There is a large management literature, of course, but the point here is only that the bourgeoisie has to rule through a conflicted form, which can easily founder if management lacks the skills needed. Under conditions where pay is held down, while management pay rises exponentially, discontent will obviously increase. The main instrument that the bourgeoisie holds is that of dismissals, and so the division of the workforce into those permanently employed and the rest, of whom the most unhappy are those ultimately reduced to zero-hour contracts. This, however, is not an efficient solution, in that the company loses skilled workers, sometimes highly skilled workers. Loyalty is lost as a motivational force.

The form of capital itself has, therefore, changed. The introduction of the joint stock company marked the beginning of its transformation into a complex, bureaucratic-market structure. That has now evolved to the point where the top managers have been enfranchised within the capitalist class itself, in that their salaries and share holdings may give them more income than the controlling shareholders.

The bourgeois response to the change in form, therefore, has been to try to turn the clock back to the 19th century, with a competitive market of a large number of small firms, requiring the break-up of companies, privatisation and the hiving off of parts of companies or parts of the administrative machine of the state. Industry has been transferred to the third world, where poverty provides a huge army of the unemployed. Control has been assigned to finance capital, today largely represented by private equity. Trade unions have been restricted and union membership has plunged.

How successful has this strategy been? Its immediate weaknesses are extensive and we can list them as follows:

- Firstly, the idea that small to medium-size firms can play the crucial role in modern capitalist society is simply utopian.
- Secondly, as discussed above, there is a ceiling to investment at the present time.
- Thirdly, there has been a relatively quick and largely spontaneous self-organisation of labour in the third world, as shown in South Africa.
- Fourthly, finance capital has in fact imploded and is now under regulation, limiting its ability to control.
- Fifthly, there is tremendous discontent in the increasing inequality of incomes, partly shown by the incredible popularity of Thomas Piketty's *Capital in the 21st century*.
- Sixthly, the ruling class is itself divided, most obviously between management and the nominal owners of the enterprises: ie, the shareholders.
- Seventhly, the decline in the role of trade union leadership among the working class has meant that the unions cannot now play a mediating role between the classes, as they have done for over a century. This was the role so deplored by Lenin in his seminal work, *What is to be done?*¹
- Finally, as an extension of this point, the loss of social democracy as a credible defender of capitalism has removed a barrier to confrontation with the working class. This issue is further examined below.

The reduction in welfare benefits and growth of the unemployed has meant that social democracy has had to choose whether to become more militant or abandon social democracy altogether. By and large, social democratic parties are today little more than a shadow of their former selves, whatever that was. The effect has been disastrous for political democracy - not in the simple elimination of social democracy, but in so far as there used to be a party which proclaimed that it stood for a socialist society, however distant. Although there was a great deal of hypocrisy and betrayal, nonetheless, there was at least a formal statement of principles dedicating representatives to genuine

change. Its elimination has made parliamentary democracy appear as a contest among political parties whose members have no principles and whose parties do not essentially differ in their aims. The increasing anger among the population following the financial implosion has found no outlet.

The logic of the situation leads to a search for more radical parties. That has showed itself in Greece with a move to the left, though in other countries the move has been more to the right. This, however, could just be the beginning of a long-term adjustment, in which people will begin to seek out leftwing candidates who stand for clear socialist principles. Even a mediocre conservative can see the possibilities. A genuine anti-capitalist programme proclaiming the aims of socialism - standing as it does for a good life for all, where all participate in decision making - appears as a utopian dream, given the history since 1917, but it is not clear that this will always be the case.

When this situation is considered, it cannot look very attractive to the bourgeoisie. They have lost their allies in the unions and social democracy, they are divided and the population is increasingly discontent, if not angry. They cannot continue with their previous strategy of finance capital, given the increasing level of militancy in the third world, as in China and South Africa, and the subjection of finance capital itself to regulation, which is worldwide, both by governments and international organisations.

An historical excursus

An historical summary provides further support for the view that there is no capitalist solution other than the utopian one now being followed. In a period of capitalist decline, from the 1870s onwards, the bourgeoisie could no longer rely on the automatic stabilisers of the system, as they were undermined, and so turned to imperialism and war. Direct force was employed to suppress revolutions or potential revolutions, most particularly in the period 1917-23 in Europe. Fascism served the same purpose between the wars.

Since World War II, the concessions made in a period of military Keynesianism were supported by Stalinist control over the working class. However, by the 70s the working class began to act, and the bourgeoisie pulled the plug, while Stalinism came to an end.

In short, imperialism, war, social democracy/welfare state and Stalinism were no longer present or able to support capitalism. The final throw was the return to finance capital, now under regulation and criminal investigation.

The switch to finance capital was effectively a last, despairing throw of the dice, in that finance capital exerted an extreme form of control over the extraction of profits. Finance capital is intrinsically short-termist. It cannot be anything else, since its *raison d'être* is to make money out of money. Money, however, is not in itself capital, it has to be used to buy labour-power to create more value. So, on the one hand, finance capital squeezed the industry that it owned to the limit, while on the other it ceased to invest when it could

not find the quick return required. Given the situation where limited competition meant that the market either did not expand or expanded slowly, attempts to squeeze the value-producing sector still further could not work. Profits flowed, but they did not allow for still higher returns and more extensive fields for profits. The ultimate solution was to save the money and put it into banks to gain interest where possible. Money could not become capital, and the capitalist class was becalmed - rich beyond its dreams, but no longer capitalist.

The system was in a general crisis from the 70s onwards, as already argued. The measures taken, some of which are enumerated above, have been called neoliberalism. They led to a wild ride in search of super-profits. In utter desperation finance capital turned to cannibalism, using derivatives on a gigantic scale, in a way easily susceptible to mass, high-level fraud. The crash that followed has discredited finance capital, even though it continues to function. A reversal of deindustrialisation is being talked about, but investment remains static.

Like a horse whose embattled rider has lost his head, capitalism continues to move in the same direction as before, until the dead rider falls off and the horse (capital) gets the point and stops. Their older strategies are exhausted.

It may be said that capital can rule as all undemocratic rulers have ruled in the past: through direct force, through division of the working class, through control over the media, education and general propaganda. It is, of course, doing so, but the problem for capital has always been that it brings together the working class in order to have a workforce which can work efficiently and well. At the same time, capital is international today and a divided workforce and divided society is less efficient. It is more difficult today to discriminate as harshly as before against women, non-whites, Jews, gays, etc. Hitler could use the traditional scapegoat of the middle ages, the Jews, but that is no longer possible today. Education, travel and the even media have made propaganda more difficult to believe. The Orwellian or Stalinist world could never be one in which the population was indoctrinated. When reality differs from the propaganda so blatantly, people become increasingly sceptical of official pronouncements. Cynicism rules or at least appears to rule. Most people are more intelligent.

The bourgeoisie is in dire need of a new policy, having lost all its old strategies from imperialism to Stalinism. The latter was not, of course, a capitalist strategy, but was accepted as a means of survival.

The present impasse is shown in the bourgeoisie's foreign policy, where it has invaded Iraq and Libya, but failed to improve its own situation. The whole of the Middle East is now in a total mess, in large part because the capitalist hegemon, the US, cannot find a solution. There is, in fact, no solution. The bourgeoisie destroyed the communist and nationalist parties and promoted religious fundamentalism, which has now got out of control. Its political failure is a mirror of its economic failure. The world is crying out for an advance to a new stage, where society is ruled from below in the interests of all, through an agreed series of plans. Governments have no money and cannot even bribe

their way through crises, as they have done in the past. The countries of the former Soviet Union remain in a state of transition, as exemplified by the failure of Russia to develop and the considerable difficulties of Ukraine. Although it is in the interests of capital to bring them fully into the capitalist form, it has failed to help them move in that direction.

Most rightwing theorists might have expected the capitalist class to provide the money and the measures to allow, or even force, the states of the former Soviet Union to become full capitalist countries. Instead, capitalism rather saw them as a resource and a market in order to increase turnover and profits in the west. Western firms did not want competition and saw to it that there was none. There is, however, no perspective for a country based very largely on extractive industries, as in the case of Russia. There is even less of a future for Ukraine, which does not have the mineral wealth of Russia.

Western strategy in relation to the former Soviet Union and eastern Europe also can only be called non-existent. The consequences are becoming clearer, with Hungary moving in a far-right - possibly semi-fascist - direction and other countries adopting authoritarian forms. Even those which have regular elections, like the Baltic republics, cannot be said to be 'democratic', since, they have found an excuse to exclude a section of the population from citizenship.

Final round

The bourgeoisie is not investing and so there is a low rate of growth, and it is afraid to go for full employment, in case there is a repeat of the 70s. Instead, the strategy is one of austerity, combined with the remnants of a stricken, if functioning, policy of finance capital.

Austerity is already a failed strategy, but it is worth spelling it out. At the present time, the rich are getting richer, the poor poorer and the middle class is being wiped out. On the one hand, there is much talk about SMEs (small and medium size enterprises). On the other hand their position is not getting better, given the difficulty in obtaining loans and finding customers. On the contrary, the unemployed middle class has entered their ranks and finds it difficult to survive. The educated middle class - doctors, teachers, academics, engineers, etc - have declining salaries, while their costs, in terms of housing, education, etc, are rising. It is almost as if Eduard Bernstein's complaints¹² that Marx was wrong in predicting such a future have themselves been proved wrong. The public sector, being harshly cut, is particularly hard hit. At the same time, the conditions of workers - whether skilled white-collar or unskilled blue collar - are worsening.

Can the bourgeoisie go for concessions, a Keynesian strategy? It has never been tried in the absence of war, so it would be dangerous to attempt, and they know it. It is highly unlikely. Will they go for more repression? Historically, much of Europe fell into the hands of fascism, which repressed the left and the working class as a whole, but fascism itself is not repeatable. The logic of austerity leads to the full re-institution of commodity

fetishism and the reserve army of labour. While the return to the confinement of workless families to the workhouse and the total privatisation of everything, with the return of gold as currency, is also out of the question, movements in that direction, if not the ultimate goal, are already in place. Nonetheless, it is highly unlikely also.

A section of the population is already scrounging from food banks and a substantial proportion of workers live a precarious life, moving in and out of employment, and losing their original skills. The logic of this situation is one of permanent riots and the growth of anarchism. This too is not a realistic labour or political policy. A simple continuation of the present situation will lead to a sharp shift to the left among the population, sooner rather than later. At the moment, workers are looking for immediate and comfortable solutions like independence in Scotland, but, as they disappear, socialism will present itself as the only reasonable replacement ...

This limited analysis is well known to bourgeois theorists and the more realistic will try to find an alternative. Interestingly, some of the attempts to hold the fort, such as the rewriting of history, the demand for patriotic textbooks, and the need to teach British values, all of which are deeply sinister, are seen for what they are. There is, in fact, no alternative other than continued austerity, the continued undermining of the welfare state and the continued exclusion of unions from the body politic, all in the name of democracy.

No middle road

The fact is that there is no middle road. One cannot mix the sperm of a dog and cat and expect to get a dot. Or, as one lecturer put it when we were debating market socialism, the latter is like fried ice. A worker subject to the discipline of the factory, under the control of management, is exploited and oppressed, whether the factory claims to be socialist or capitalist. In Marxist terms abstract labour has to be abolished. If it is abolished there cannot be a market. However, while there is no middle road, there is still a use for the *failed* middle road.

The nature of nationalised forms within capitalism may be inferior both to their privatised and socialist forms. The nationalised entity, in capitalism, cannot complete the process of transformation of the institution or enterprise by electing management and running the 'firm' for the benefit of both the society and the workers. Within capitalism, the 'firm' is usually compelled to run as if in a market, with pay, promotion, hierarchical structures for workers and a financial and economic structure based on either making a profit or not making a loss. On the other hand, the nationalised firm has to conform to government rules and abide strictly by the law. The result is that trade unions are relatively strong, jobs are protected and wages and salaries paid at some median level for most workers. Incentives become a mixture of the financial and working for the greater good. In the so-called natural monopolies like the health service, public transport, the utilities, etc, the result is a middling service, inferior to what is possible and often inferior to what private enterprise may provide. The problem for a nationalised

firm is that it cannot use the ruthless control exercised by efficient capitalist management in firing incompetent workers, or in hiring the most skilled professionals at exorbitant salaries. Nor can it use the stages in between the polarities involved.

However, it is frequently not the case that privatisation is superior. A national, integrated service with one provider has natural advantages, which may be enhanced through good management and relatively high pay. A nationalised service such as health relies on the goodwill of its employees, the doctors and nurses, because that is in the nature of the service. However, capitalist incentives conflict with the humanitarian nature of the service. The US health service, being largely based on the market, is manifestly inefficient except for the rich. If someone is a worker, customer or observer of enterprises which vary in their ownership, whether public or private, such a worker may well be confused as to which kind might be supported. Such confusion might be extended by the failure of Stalinism. Socialism cannot be built by constructing islands within capitalism, whether the islands are small cooperatives or large countries, still less nationalised firms. At the present time, however, confusion reigns, precisely because the laws and proto-laws of the old capitalist system, and those of decline mix with those of the future struggling to show themselves.

Social democracy has manifestly failed and Stalinism has not only ended, but provided a permanent excuse to the capitalist class for opposing socialism. It does not yet know which way to turn. In view of the difficult reality confronting most people, popular confusion, rather than the traditional bases of commodity fetishism and the reserve army of labour, provides the bedrock of the relative stability of capitalism at the present time.

The confusion is supported by the dominant currents of thought among those considered intellectuals. In the period before World War I, and between the wars, there were many socialist writers in many languages. It is no accident that Michael Gove, former secretary of state for education in the UK, wanted to effectively ban Steinbeck from school literature. While Gove was widely derided, the fact is he thought he could get away with it.

It has taken almost a century, from the time of the Russian Revolution, to reach a point where its ideals could be discussed without a Stalinist interpretation. It can now be more widely understood that it was defeated by Stalinism, with truly destructive and world-shaking consequences. Effectively, socialism has been delayed a century and it can be further delayed by the belief that it is a utopia and possibly even a destructive utopia. Delay is also a strategy, whether through demoralisation, confusion or fear. It is now the task of socialists to convince the working class, effectively the population, that the new society is not a utopia and the groundwork is present in the declining capitalist society. All it requires is a sustained push, in whatever form, to get there.

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Notes

1. S Gordon, 'Capex data cast recovery doubts' *Financial Times* July 1 2014. Curiously, the article involved refers to reasons for optimism given by Standard and Poor, which provided the figures. These amount to saying that the spending is low and therefore they will be higher in an economy which is recovering. Since the point of the article is to point out that the low capital expenditure throws into doubt any recovery, the article effectively ends by showing the confusion - or perhaps despair - of Standard and Poor. Indeed, this state of mind is shared with most economists and government advisors.

2. *Ibid.*

3. 'Euro zone needs quantitative easing' *Financial Times* July 20 2014.

4. J Politi, 'US jobs: slim pickings' *Financial Times* July 20 2014.

5. 'Leaders: "America's lost oomph"' *The Economist* July 19 2014.

6. *Ibid.*

7. L Summers, 'Why stagnation might prove to be the new normal' *Financial Times* December 15 2013.

8. P Krugman, 'Secular stagnation, coalmines, bubbles and Larry Summers' *New York Times* November 16 2013.

9. "We now know that the economic expansion of 2003-07 was driven by a bubble. You can say the same about the latter part of the 90s expansion; and you can in fact say the same about the later years of the Reagan expansion, which was driven at that point by runaway thrift institutions and a large bubble in commercial real estate" (*ibid*).

10. For a more detailed discussion of the question of competition and the role of monopoly, see the important work by John Bellamy Foster and Robert McChesney, *The endless crisis* (New York 2012); and the article by Fred Magdoff and John Bellamy Foster in *Monthly Review* May 2014, Vol 66, no1 (<http://monthlyreview.org/2014/05/01/stagnation-and-financialization>).

11. VI Lenin *What is to be done?*: www.marxists.org/archive/lenin/works/1901/witbd. It should be noted that Stalin altered Lenin's works, so that the first three Russian editions are considered genuine, even though there were footnote alterations in the third edition. The first English editions follow the 4th Russian edition, which is dubious. (At one point I found at least one article which was translated in the opposite sense to the Russian, though whether that was the translator or the censor is not clear.)

12. E Bernstein *Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie* Stuttgart 1899 - first published in English under the title *Evolutionary*

socialism by the Independent Labour Party in 1907. See www.marxists.org/reference/archive/bernstein/works/1899/evsoc.

Bernstein argued that inequality in incomes was diminishing and the middle class growing. He contrasted this with what he thought were Marx's views. He projected the declining inequality forward. He ended up arguing and defending - in the concluding chapter of this book - the view that the final aim is nothing, the movement everything, partly as a result. The fact that he has been repudiated statistically in such a graphic way over a century later lays stress on the need to understand the reasons. The great depression did lead Bernstein to accept that he was wrong, it seems, but the present provides a graphic extreme. In reality, Bernstein laid the foundation for social democracy.