2016-12-05 From the preparatory notes for Class 31 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

This is the final part of the course. After considering the evolution of property and the 'engine of inequality', we turn to consider: **What can be done?**

Our attempt to organise an additional two classes on a Saturday was unsuccessful. The consequence is that we have only today's class to deal with this entire topic.

ROUGH NOTES ONLY:

Brief introduction to crisis theory

Inequality / effective demand / Marx

Lack of time prevented showing a video of a lecture by David Harvey on the many ways and many points in the circuit of capital at which crises may be triggered.

Lack of time prevented the intended discussion of credit, debt, and the banking system (including how banks create money and how this is regulated).

Lack of time also prevented us from considering the approach of Keynes to capitalist crisis: to identify what Keynesian policies are, where they have had partial success, and where their fundamental inadequacy is revealed.

Essentially, systemic crisis is the outcome of systemic inequality. Property creates the crisis and society escapes it only by the (partial and repeated) destruction of the property barrier. Marx's views on the origins of crisis were essentially correct — and in fact they do not depend on a 'labour' theory of value.

A hundred and fifty years ago, in a notebook later published as part of *Capital* vol 3, Marx jotted down what he called 'Three cardinal facts of capitalist production'. The far-sightedness of this conception is amazing:[1]

> (1) Concentration of means of production in few hands, whereby they cease to appear as the property of immediate labourers and turn into social production capacities. Even if they are initially the private property of capitalists. These are the trustees of bourgeois society, but they pocket all the proceeds of this trusteeship.
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> (2) Organisation of labour itself into social labour: through co-operation, division of labour, and the uniting of labour with the natural sciences. In these two senses, the capitalist mode of production abolishes private property and private labour, even though in contradictory forms.
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> (3) Creation of the world market. The stupendous productivity developing under the capitalist mode of production relative to population, and the increase, if not in the same proportion, of capital-values (not just of their

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[1] Progress Publishers edition, p. 266.

> material substance), which grow much more rapidly than the population, contradict the basis, which constantly narrows in relation to the expanding wealth, and for which all this immense productiveness works. They also contradict the conditions under which this swelling capital augments its value. Hence the crises.

Part of the contradiction is the replacement of human labour by automation, which in the past has tended to be offset in the long run by new job creation as the system expands. Today, with the ongoing revolution in technology, this process of job replacement by computers and robots is advancing ever more rapidly. Many of the new jobs created are at lower wages than those destroyed, and we may well have reached a tipping point where the elimination of labour from production becomes generalised except in the case of relatively few, highly-skilled functions. That will itself greatly aggravate the systemic crisis of capitalism: galloping technology coupled with further rising inequality and social decay.

Today, globally, there is an uninvested cash pile equal to US$50 trillion — three times the annual output of the United States — which can neither be consumed by those who own most of it nor productively invested, because the social product (including the social surplus) is so unequally distributed as to strangle effective demand.

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Global cash triple the size of US economy

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IF you want to get a sense of just how insecure investors are feeling, consider this: investors worldwide are holding more than $50-trillion (about R702-trillion) in cash.

That's according to BlackRock president Rob Kapito, who mentioned the startling statistic in an earnings call on Tuesday. He noted that up to 60% of clients' holdings are now sitting in cash, according to BlackRock research. "Depending upon changes in interest rates and changes in equity volatility, a lot of that money can come into motion," he added.

BlackRock knows a lot about big sums of money. The New York firm now manages more than $5-trillion, an amount that's bigger than the Japanese economy. But it's hard to comprehend a concept like $50-trillion, even for the world's biggest asset manager.

That's almost three times the annual economic output of the US, the world's biggest economy. It's more than twice as much as the balance sheets of all the biggest central banks combined. If even a fraction of this cash starts to move into stocks, bonds or other assets, it could have a significant effect.

The existence of this huge buffer is already making a big mark. It explains why the market hasn't dropped meaningfully, despite some considerable jitters, and why asset prices may continue to rise well beyond levels that seem rational.

Billions of dollars are just waiting for a chance to pounce on anything that looks remotely like an opportunity. US distressed debt managers have a record $56-billion to invest, according to research firm Preqin. But there just aren't enough bad loans and bonds for them to buy, as Bloomberg's Jodi Xu Klein wrote in an article this week.

Fund managers surveyed by Bank of America Merrill Lynch have been building their cash cushions to levels that haven't been higher since November 2001, Bloomberg's Sid Verma and Luke Kawa wrote this week.

Why are investors hoarding so much money? BlackRock CEO Larry Fink weighed in on the question on Tuesday: "I don't believe the people are sitting there because they're just worried about the next event. A lot of people just don't feel like investing has been that fair to them."

INVESTING NOT FAIR: BlackRock CEO Larry Fink

Unlike complicated securities or balance sheets, cash is perceived as safe. It gives investors the ability to move quickly to take advantage of opportunities that come up. But it provides absolutely no extra income, nor the delight of purchasing property that owners enjoy living in or investing in a business that supplies desired or needed goods and services. And if inflation ever kicks in, this money will essentially lose value.

> Depending upon rate changes and equity volatility, a lot of money can come into motion

Perhaps no extra income is better than the less-than-nothing promised by government bonds in Europe and Japan. But cash is an unsustainable proposition for pensions, retirees, insurance companies and many others who expect to earn some sort of return on their assets. This money is poised to rush in at the mere hint of a prolonged sell-off, which means it will act as a buffer against just such a thing. — *Bloomberg*

This explains why global interest rates have been tending towards zero or indeed sub-zero percentages (where you have to pay the bank to hold your deposit), and also why stock-market equity price-earnings ratios have become so high (it costs much more than in the past to buy a share relative to the dividend earnings which that share can be expected to yield). This is a form of inflation: too much money chasing too few returns. It encourages asset-price bubbles and subsequent collapses. It is symptomatic of the deep-running global crisis resulting from growing inequality.

Yet those with political power everywhere are preoccupied with economic tinkering that simply does not get to grips with the central problem of the property relation. Their aim at all costs is to preserve private property, either enhancing its power or adopting policies to ameliorate that power while making as few inroads upon it as can be contrived.

What can sensibly be done?

We did not have time to complete reading the extracts from *The German Ideology*, and so we have not considered and discussed the theory of *alienation* (the negative aspect of the division of labour) advanced by Marx and Engels. In brief, they proposed to overcome the contradictions of capitalism by abolishing production for exchange, and by replacing the organising mechanism of the market with the co-operative efforts in production and distribution of 'directly associated labour'.

Large-scale industry and the rise of the industrial working class had, in their opinion, brought society to a point of development where such a change was both necessary and possible. Private property in the sense of private ownership of the means of production, distribution and exchange could be abolished.

We have touched previously on the inadequacy — indeed the naivety — of this conception, now rendered obvious by the advances in the global division of labour, by its unparalleled complexity and productivity, by the rise of automated processes and by the decline of large-scale industry accompanied by the declining power of the industrial working class.

We have not had time in this course to study the Russian Revolution, why it succeeded at first and why eventually it failed. The centrally planned economy of the Soviet Union had substantial successes while it was a matter of developing infrastructure and heavy industry, and in the period 1928-1984 it achieved higher rates of growth than the USA, Britain, Germany and Japan.[2] But then, lacking the discipline of the market and stifled by bureaucracy, it fell increasingly behind. It is enough for present purposes to quote the late Angus Maddison, a reliable economic historian, on the economic conditions prevailing before the collapse of the Soviet Union in 1991:[3]

> Capital-[to-]output ratios were higher than in capitalist countries. Materials and energy were used wastefully as they were supplied below cost. Shortages created a chronic tendency to hoard inventories. The ratio of energy consumption to GDP was much higher than in western Europe. The steel consumption/GDP ratio was four times as high as in the United States. Transfer of technology from the west was hindered by trade restrictions, lack

[2] Samuelson and Nordhaus, *Economics*, 12th ed., McGraw-Hill, 1985, pp 775-6.

[3] *Contours of the World Economy 1–2030 AD*, Oxford University Press 2007, pp 341-2.

> of foreign direct investment, and restricted access to foreign investors, technicians and scholars. Work incentives were poor, malingering on the job was commonplace. The quality of consumer goods was poor. Retail outlets and service industries were few. Prices bore little relation to cost. Bread, butter, and housing were heavily subsidized. Consumers wasted time queuing, bartering, or sometimes bribing their way to the goods and services they wanted. There was an active black market, and special shops for the nomenklatura [the privileged bureaucrats of the state]. There was increasing cynicism, frustration, alcoholism, and a decline in life expectation.

It was not the intention of the Russian Revolution to close itself off from the world — on the contrary — but it ended up doing just that. Its vast expanse — one fifth of the land surface of the globe — and all its eventual military power did not save it in the end from the competition of the world market. Marx and Engels wrote in the *Communist Manifesto* more than 160 years ago that cheap goods are the 'heavy artillery' with which the bourgeoisie 'batters down all Chinese walls'. So it was and so it will be — until we find an effective road to the *world* transformation of the property system that rules us all.

We have lacked time to deal, as we had hoped, with the history in many countries of the rise and collapse of anarchist experiments in directly associated labour and co-operative production.

We have lacked time to do more than touch on the issues of free trade and protectionism — issues which are now ever more sharply in focus as the current national-state reaction to globalisation takes hold, whether in the form of 'Brexit' or Trump, or in the form of capitulation to nationalism by many intellectuals of the 'Marxist' left. The standpoint developed in this course has been that the national state, together with private property, has become the central barrier to progress, and that resort to national-state competition has historically been and remains a path leading to destruction and war.

Our focus as we reach the end of this course must be on the possibility of an increasing social appropriation of the *global* surplus.

The global surplus is a produced surplus, capable of constant renewal or substitution, that is —

* greater than ever in history;
* generated with the aid of technologically advanced productive forces;
* having the potential, if progressively applied, to solve all the most pressing problems of humanity.

But the surplus is disproportionately held and commanded, in financial form, by a tiny minority of society incapable of applying it progressively because existing property relations stand in the way. This minority transcends the national state, but uses the national state as an instrument in their competition to preserve and expand their proprietary gains and social power. The best of them, it is true, devote a very large part of their entitlement to philanthropic projects — but generosity by a new aristocracy lording it over the rest of us cannot offer a way out. We have to address the problem of property relations in a far more fundamental way.

In addressing the problem of globalisation we need to distinguish as clearly as we can between the competitive 'race to the bottom' and the race to the top. The race to the bottom is inevitably destructive — of livelihoods, conditions of life and work, natural resources and the natural environment. The race to the top, on the other hand, bound up with the competitive invention and use of new technology, lays the *technical* foundations for humanity to overcome the problems of poverty and deprivation, and opens the way towards a sharing economy. Its potentially destructive implications are capable of being prevented, or compensated for and controlled. Ultimately, technology carries with it the progressive elimination of the *need* to work — in place of toil, the possibility of recreational-productive activity fulfilling the needs and potential of free human beings.

Main components of a sustainable program

To the extent that state ownership and central planning offered, on a democratic basis, a general approach to a solution in the past (it was clearly the program of Marx and Engels for their conceived transition to socialism), it cannot provide a way out now. This does not mean that targeted nationalisations have no role: they do, but each case must be approached on its own merits and not as a general prescription. The problems with the attempt of the state to manage enterprises are legion.

To facilitate the ongoing race to the top, capital has to be able to move; but in order to overcome and prevent the race to the bottom, capital must not be able to escape to jurisdictions free of the elements which we are about to outline. These are only the broadest brush-strokes of a general approach.

If we think away for a minute the problem posed by competition between national economies, and think only of competition between freely moving capitals within a single global framework, then we can envisage three parallel general ingredients which would mutually and positively, interact. Part of the task will be to figure out how much of this could be carried out nationally in the course of transitional measures, especially if national government is used effectively as a platform for global advocacy to persuade others to join in.

ONE: At the level of the production and exchange of goods and services:

Greater rules-based regulation of the enterprise itself, in regard to minimum wages, working conditions, health and safety, environmental protection, etc. The establishment and promotion of public enterprises, but only where efficiencies or welfare objectives warrant the investment. No discouragement of private enterprise; encouragement of public-private development partnerships where appropriate. Effective enforcement of the rules. Freedom generally for consumers to obtain what they want from private or public providers as they choose. Expropriation of productive enterprises only where specifically warranted for public purposes, and then normally only for value in exchange. Promotion of transparency and objectivity, and de-emphasis of bureaucratic discretion, in the regulatory functions and in the disposal of public favours and funds.

TWO: Appropriation of the produced surplus:

Greatly increased taxation of this surplus, although with considerable flexibility to incentivise research, development and innovation at the enterprise level. The appropriate

mix between taxation at the enterprise level and progressive individual taxation (including the taxation of inherited wealth) is an open question. Historically it has been possible for production for exchange to flourish despite very high levels of direct taxation (as well as high wages) — so long as capital could not escape under competitive pressure to lower-tax (or lower-wage) regimes.

THREE. Distribution of the appropriated surplus:

(a) For publicly-funded infrastructure, health, education, roads, transport, police etc.

(b) For welfare provision, to the extent not rendered unnecessary in time by (c) below;

(c) For payment of a **'social dividend'** of an equal amount to or in favour of every individual by right of birth. Not a welfare payment as we currently think of that, and not means-tested, this would explicitly be dependent directly on the available surplus divided by the qualifying population. It would support and increase effective demand, while spontaneously reshaping demand so as to call forth greater production of what ordinary people need and want. It could and would rise or fall. Everyone would have a personal and collective stake in production as well as consumption. It would tend to increase in real value as the real surplus increases with technological advancement, and as population growth is curbed. Social-moral pressures against over-population and against incompetence or laziness on the part of employed workers would be strengthened, without authoritarian controls. As the social dividend grows relative to population, the supply of labour-power relative to demand could fall, raising wages of those remaining in employment as an additional source of income. Tax-relief incentives for work-sharing at the enterprise level could begin to be worked out, without threatening the living standards of the employed workers as they do now. Initially, or in different regions where necessary, there could be health-, education-, food- or other dedicated vouchers combined with a cash component for free spending. Ultimately, full individual freedom in the saving and investment or spending of the social dividend should be possible. There could also, especially during a transitional period, and depending on the country concerned, be an obligation of public service for those of the able-bodied population receiving the social dividend within a certain age range.

There would be much difficulty in the detail. Our object here is merely to formulate a coherent general scheme of policy, which could be positively contrasted with the prevailing, failing dogmas, and which could become a focus of effective advocacy and struggle for change. How much of this can be achieved in any particular state, or any combination of states, is a matter for argument and struggle.

The whole approach, however, is predicated on the idea that humankind now possesses the technology and other forces of production which make it possible progressively to eliminate poverty, inequality and insecurity. The obstacle is essentially social and political, not technical. Property, having increasingly 'disappeared' into abstract property in the form of financial entitlements, is now at last in a condition where — with the necessary political and social changes — it can be laid hold of at the general level and can begin to change from being the predominant, blindly ruling social relation of history, to an increasingly subordinate relation that eventually, substantially, withers into insignificance.

Global financialisation — the predominance of proprietary entitlement in financial form — while it initially presents formidable obstacles, and accelerates the process of unequal accumulation, will actually end up making it easier for society to move in on the surplus and subordinate production increasingly to social aims. In that sense it represents objectively the invasion into capitalism of the socialist society of the future. We need to keep that in mind as we struggle against its regressive effects.

DISCUSSION