

Pamphlet no 19

**CAPITALISM
AND ITS CRISES**

With the present economic crisis, workers have seriously begun to question the functioning of the capitalist system of exploitation. The reality of our present situation completely exposes what the bourgeois politicians have been preaching for the last few years: that there won't be anymore crises and that the capitalist system is "civilized".

Where does profit come from? Where do crisis come from? Why do we say that a fundamental and antagonistic contradiction opposes the proletariat to the bourgeoisie? This pamphlet aims to answer these questions by explaining the principal concepts of the Marxist political economy.

1. CAPITALISM IS EXPLOITATION:

Where do profits come from? That's what has to be asked before we can really understand capitalist exploitation. The bosses and the bourgeoisie in general when trying to explain what allows them to continue existing, that is, profits, come out with all kinds of stories.

**Where do profits come from?
Here's what the bourgeoisie
thinks:**

Profit, why that's the work done by the owners (bosses), it's the "compensation for the risk" that the investor takes. The Council of Employers of Quebec (Le Conseil du Patronat du Québec), in a recent publication ("**Profits, Yes, but for Whom?**", Editions du Jour, 1976) said that profits were the payment of capital. This same Council of Employers comes out with a couple more "scientific"!! explanations:

"Without going back to Noah's Ark, it would perhaps be useful to remember that the word "gain" ("benefice" from the Bible text, Ecclesiastes) comes from a Latin word which means "to do good". As for the word "profit" - in the sense of "commercial gain" - it also comes from a Latin synonyme "progress", but uses an English intermediary word." (p.8)

The Council of Employers continues by borrowing a definition from a well-known bourgeois economist, Paul Samuelson: "the profits are the bait that urges us to be more efficient and the losses are the punishment for not having been able to wisely coordinate our resources with consumers' demands"...(p.16)

In fact, all the rubbish that the capitalists have come out with points to one thing: to deny that the source, the only source, of capitalist profit is the unpaid labor of the worker, a pure and simple theft, but legalised and covered-up, of an important portion of the good's value which is produced by the worker.

What is a mode of production?

To understand how this extortion takes place, it is necessary to understand that the human society has advanced from the time when it was only able to produce enough to survive. As a matter of fact, during what is called primitive communism, equality existed only because of the necessity to survive and, therefore, there was no parasite class due to the absence of anything extra (any surplus). But, the human society was able to produce more than was necessary for their immediate survival by developing the **productive forces** of which the **means of production** (all the material objects necessary to be able to work) and, more importantly, by developing the capacity (the amount and ability) or production performed by man. This was a great step forward in human history because man was able to spend more time on producing and perfecting the means of production which required a more elaborate division of labor. On the basis of this development of the productive forces there appeared, throughout History, different modes of production (Primitive Communal, Slave, Feudal, Capitalist, Socialist, etc.).

When we say **mode of production** we not only mean the stage of development of the productive forces (the capacity to produce) but also, and especially, the social relations, that is the relation of men to

each other within the heart of society for the production of their means of subsistence and, in general, their social riches. Man's capacity to produce depends upon the perfecting of the means of production and in particular, what one can call, the **means of work**, tools, instruments, etc. that allow for the changing of the **Instruments of labor**, for example, raw materials into commodities (that is, objects transformed by human labor). This perfecting of the means of production is linked with a qualitative improvement of the labor force (manual dexterity but, especially, improved technical knowledge). This causes the **technical division of labor**, the separation of several women and men on a complicated job into a series of stages and into a simpler transformation. If you take for example, the manufacturing of a vehicle, you can easily see that it requires the indispensable contribution of the labor of millions of workers; from the mining of the mineral, the laminating of sheet iron, the construction of the pieces, their transportation and finally, to their assembly. What a step forward from the making of a hand-hammer by a single person!

But we've got to realize that this technical division of labor is accompanied by a **social division of labor**. This shows more specifically the social relations between men and groups of men who have come into contact with each other so as to produce. These social relations or **relations of production** show, in particular, the forms of property of the means of production and the distribution methods of the products of labor. The characteristic of a class society is that the social division dominates the technical division of labor. Subsequently, the appropriation by a group of men from a certain area of the productive process and the form of this appropriation (possession of the means of production in the form of capital by the bourgeoisie or the possession of the labor-power by the slavemaster, etc.) is the origin of the division of society into **social classes**.

**The capitalist
mode of production**

Let's take the capitalist mode of production and let's examine the social division of labor that this oppressive system forces upon us. First of all, who owns the means of production (the means of labor plus the instruments of labor)? Do they belong to the entire society, to the producers, to those that work, or do they belong to a minority of capitalist parasites?

The answer is clear though not "natural" or "normal" as the bourgeoisie would like us to believe. The means of productions belong to the capitalists who, as a class, own all or the overwhelming majority of the material objects necessary for production. But what does this possession mean? It means that a minority of parasites who do not do any productive work take from the work of another. This work is materialized in the use of machines, factories, by the reserves of commodities, and money, etc. Therefore, what should be considered as a **social property**, the fruit of a million men's work, becomes a **private property** because of a class. By the control this class exerts over the means of production, over the "dead labor", it can control the "living labor" which is represented by the labor-power of millions of workers, and this class finally dominates the entire society.

Definitely, the stored-up, dead labor is useless unless the live labor enters into the process of producing new values or of changing the work already materialized in the means of production into objects of consumption. It is useless for a capitalist to have a factory if he doesn't have workers inside to run it and to produce new commodities. We have, therefore, gotten to the second question of labor and laborer after having dealt with who owns the means of production. Who possesses the labor-power or more precisely, who works? It's the working class, the sole producer of the social riches, the working class who today makes up the majority of the population. But one question remains.

The capitalists own the means of production, the capital, the workers' work, but to whom go the fruits of the labor, to whom go the commodities produced by the workers? Let's find out what the Council of Employers of Quebec have to say about this: "the head of a company is the owner of the equipment, factories, and the machines necessary for the production of a commodity (good). He becomes

owner of the commodities produced and, consequently, the gains that result from their sale." (p 7)

And there is the crux of our problem. Where do the profits come from? They come from what the capitalist takes away from what the workers have done, that is, the new commodities that the workers have manufactured while at the factory. The value increased by the production of the labor of the worker largely surpasses what he receives as a salary. The difference between the value produced by the worker and what he receives as salary is called the **surplus-value**.

The profit of capitalism is the unpaid part of the worker's labor

Capitalism is wage-earners. There, in a few words, is the basis of capitalist exploitation. In fact, in order to survive, the worker is forced to sell his labor-power to the capitalist because he doesn't own the means of production. Capitalism that has transformed all the products into commodities (exchange-goods made purposely to be sold and bought) also transformed the labor-power into a simple object of exchange, a commodity that the capitalist hopes to get at the lowest price.

All commodities have a value shown by their price which is equivalent to the quantity of gold or paper money. What is the value of a commodity? It is the labor-time necessary for its production. More precisely, in a given historical situation, it is the socially necessary labor-time needed to produce a commodity. So, what is the value of labor-power as a commodity? It's the value of the means of subsistence necessary for the survival of the worker and her/his family. Of course, the amount of commodities necessary for the worker and his/her family is always being cut down by the capitalist who, in trying to increase his profit, tries to lower the salaries. This is why the value of labor-power and salaries are at the center of the economic struggles between the workers and the capitalists.

This purchasing of the labor-power of the worker by the capitalist in the form of salary by the method of equal exchange between equal partners is at the heart of the swindling done by the capitalist. The workers wants to sell his labor-power, and the capitalist, by an unknown "gift of God", finds himself "by chance" the owner of enough capital. This allows him to fulfill his benevolent duty of creating jobs and buying the labor-power of the worker after bargaining for good quality. Who would dare see the result of a theft and dare cry out about exploitation at the heart of this beautiful, equalitarian society? These are pretty speeches, Messrs. the bourgeoisie, that everyday you rattle off to us at the factories, in magazines, on T.V., in your schools and your churches. But you become tongue-tied when it comes to explaining what goes on once the worker has been hired and finds himself at the factory as a slave of your assembly line!

What happens in the factory and in general within production isn't all that mysterious but, for the apologists of this capitalist paradise it's better not to speak too loudly about these petty boring details. For, just a moment ago, what had been for the capitalist only a commodity as any other (the labor-power of the worker) becomes now, in production, a very particular commodity because it has the peculiar property of producing more than what it costs. Let's take a closer look.

Suppose that a worker works 8 hours in exchange for a given salary. During a certain time limit, say 4 hours, what we call **time of necessary labor**, the worker produces the equivalent of his salary, that is the equivalent of the value of the commodities that he can buy with his salary. But the other 4 hours of the labor, what is called **surplus-labor**, will also produce values, but which will belong to the capitalist in the form of a commodity. In other words, for each hour of labor, one half-hour is needed to produce the equivalent of the salary of an hour, while the other half-hour produces the value that will remain the exclusive property of the capitalist and for which, the worker will not receive a cent. The value produced in surplus labor (or surplus value) and the time of necessary labor (or the **variable capital**, that is the salaries) is called **rate of surplus value** that is, in our example, 100% (4 hours of surplus labor/4 hours of necessary labor).

In order to camouflage this rate which all too clearly reveals the exploitation of the worker, the bosses would rather talk about the **rate**

of profit, which is the ratio between the surplus value and the **total capital**. Now, the total capital is not only made up of the variable capital (the salaries), but also the **constant capital** (the machines, raw materials, etc.). You can easily see why the rate of profit is so much lower than the rate of surplus value which is the real percentage of capitalist exploitation. In fact, its only the variable capital which is the producer of the surplus value and, therefore, the profit. It is for this reason that we say that this capital is variable as it finds itself, at the end of the production process, increased to the amount of the surplus value. The constant capital doesn't vary throughout the entire production process. In fact, it only changes in form: from the raw materials, machines and buildings that it was, to a finished product.

Capitalism is a class society

The capitalist mode of production necessarily consists of two antagonistic classes; the proletariat and the bourgeoisie. Capitalism is a class society because it relies upon the private ownership of the means of production. The capitalist class, or the bourgeoisie, who own the means of production, will do anything to protect their class privileges. However, the bourgeoisie can't be a part of the working class who, while it only owns its labor-power, is the only class that produces a productive labor (source of the social riches). More than that, the bourgeoisie produces the proletariat. For the more capitalism develops, the more salaried people and workers there are.

Thus, capitalism produces its own grave-digger, the working class. For, if the bourgeoisie cannot be a part of the working class, the proletariat, therefore, should have nothing to do with the bourgeoisie who is there only to exploit it.

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2. THE CAPITALIST CRISES

In the second part of the pamphlet, we intend to look into the general mechanism of capitalist crises. Don't be surprised at several abstract points of certain explanations. In fact, the capitalist crises are complex evidences of the most intense contradiction of capitalism. Like a volcano, the capitalist crisis spits out all the rot of the capitalist system, and like lava deep in the earth, capitalism consumes itself by the most basic contradictions of a class society.

How the bourgeois increase their profits

As has already been explained, the profit comes from the surplus-value and the surplus-value comes from the unpaid part of the workers' working day. For the bourgeoisie, therefore, to increase the profit means to increase the surplus labor. For this, the capitalists can use two methods. The first consists of **directly** increasing the surplus labor (to make the workers work longer by increasing the number of working hours for the same salary). This is what is called the increasing of the absolute surplus value. To the disgust of our capitalists, this lengthening of the working day can only be extended to certain limit... if he wants to find his worker alive for the following day!

That's why the capitalist falls back to the second method, which is the most efficient, to increase his surplus-value. For the capitalists it means to decrease the value of the labor-power and, therefore, the salary in such a way that the part of the day in which the worker only produces the equivalent of his salary is **relatively** reduced in proportion to the part of the day which produces the surplus-value. This is called increasing the **relative surplus value**. The bonus system, for example, fulfills this function by making the worker work more in a given amount of time for the same salary. This is one of the most

backward systems upon which the Canadian textile industry was built.

In order to lower the value of the labor-power, the bourgeoisie will try to lower the value of the commodities which are necessary for the existence of the working class. This lowering will be accompanied by revolutionizing productive techniques. This is what is happening when capitalists or groups of capitalists compete between themselves to produce something at a cheaper cost. In fact, for each capitalist or capitalist group individually involved, the perfecting of productive techniques leads to a situation of superprofits to the extent that the real value of the commodity will be lower than the mean value which is stated on the market.

"Thus the individual capitalist, by altering the condition of labor, is able to appropriate an exceptional surplus-value that goes on for the length of time that the other capitalists haven't borrowed the same methods of labor. When that happens this exceptional relative surplus-value obtained by the isolated capitalist disappears up until he again introduces a new labor method which is more productive. But, on the other hand, when the changes occurring in the production of the means of subsistence lower the value of the numerous products necessary for the upkeep of the worker, it is precisely the labor-power which is lowered. It is the group of capitalists that profit by what is essentially the increasing of the relative surplus-value." (Baby, **Principles of Political Economy**, p61, French Edition)

The fundamental contradiction of the capitalist mode of production

The present aim of capitalist production is to increase capital at the same time as the surplus-value is taken from the working class. Now as we have just seen, one of the ways, and probably the best way, for the capitalists to increase their profits is by increasing their relative surplus-value through developing, in general, the means of production and the productive forces.

Nevertheless, in the same way, the capitalists increase their constant capital in comparison with their variable capital. In fact, the perfecting of means of production implies a development of machinery that in its turn calls for an increase of constant capital. At the same time, owing to mechanical developments, fewer and fewer workers are necessary to produce the same quantities of products and the value of the labor-power involved is lowered, which consequently causes a lowering of the variable capital.

In fact, what we see here is the same logic of the whole process of social accumulation: the relative part of dead labor represented by machines constantly tends to be increased in relation to the present, living labor. But what appears as a logical and normal consequence of historical development constitutes for capitalism an internal contradiction which will recoil violently during an economic crisis. This contradiction is the falling rate of profit.

What we mean by **falling rate of profit** is the falling of the capitalist rate of profit which is a result of the increase of the social capital. The **organic composition of social capital** is found by the relation, calculated on a social scale, between constant capital and variable capital. Consider the following example

Period	Constant Capital	Variable Capital	Surplus Value	Rate of Exploitation	Rate of Profit	Organic Composition of Capital
1	200	100	100	100%	$100/300=33.3\%$	$200/100=2$
2	600	200	200	100%	$200/800=25\%$	$600/200=3$

From our example, we see that for the same rate of surplus-value but for a different organic composition of social capital varying according to two periods, there was a different rate of the main profit.

To try to prevent this falling rate of profit, the capitalist class strives to increase the rate of exploitation or rate of surplus-value. Now as we have seen, capitalists are lead to increase the amount of their accumulation to increase the surplus-value. It is precisely the amount of accumulation which is the source of the falling rate of profit! Summing it all up, its like the dog who is always chasing after its tail: the law of maximum profit which each capitalist can only counter by an even crazier fight for capitalist profit.

The falling rate of profit is definitely a contradictory law which is only the proof of the contradictory reality of capitalism. For as a matter of fact, this law is nothing other than the economic manifestation of the fundamental contradiction of the capitalist mode of production.

In fact, accumulation, which is the law of maximum profit, requires the increase of productive forces and subsequently, their socialization becomes larger and larger. Today, modern production requires the cooperation of millions of men who, when it comes right down to it, only form a single collective worker. For example, think of the millions of stages required to build a supersonic airplane or even the Olympic Stadium. On the other hand, capitalist accumulation accentuates the private character or appropriation. The most crucial part of all the capitalist world economy is in the hands of a few hundred trusts who are themselves controlled by a handful of monopoly capitalists.

As we finally get down to the nitty-gritty, the **fundamental contradiction of the capitalist mode of production** is the contradiction between the social character of production and the private character of appropriation of this production and the productive forces. It is also the contradiction between the rigid social organization at the factory level and the anarchy on the general level of the social production. Summing it up, it is the antagonistic contradiction between the bourgeoisie and the proletariat.

In fact, this contradiction between the social character of production and the private character of capitalist appropriation is only the historical evidence of the **fundamental contradiction of all class societies**. This contradiction is the one which causes the productive forces to oppose the relations of production. In fact, as History teaches us, there comes a time in the class societies when society's capacity to produce is blocked by the domination of a reactionary class. Sooner or later, the producers, the people, stand up against their oppressors to overthrow them by a revolution. This is why revolution is an absolute necessity of historical development and this shall be so for as long as there are social classes.

The economic crisis

How can the falling rate of profit which is the contradictory law of capitalist accumulation be at the root of the capitalist crisis? In fact, in order to counter this falling rate of profit, the capitalists activate a series of methods that will further develop the productive forces which involves increasing the accumulation of capital. And this is exactly at the source of the falling rate of profit. We easily understand that, in this contradictory process, we periodically arrive at a saturation point, at a rupture point where the factors which oppose the falling rate of profit become less effective. The decreasing of the rate of profit therefore becomes inevitable. This implies that the entire quantity of capital can no longer continue to expand at the former rate. In other words, society has produced "too much" means of production and "too many" commodities to be able to make them function as capital at the same rate of profit.

This "overproduction" doesn't mean that there is too many commodities produced and too much means of production compared with the needs of and the work capacity of the existing population. On the contrary, it means that the productive forces are over-developed compared with the existing relations of production, they are over-developed to function in their totality as capital, that is as capitalist private property.

This overproduction becomes rapidly obvious by the excess of stock that either can no longer be sold or can no longer be sold at a

price that will allow for the expected rate of profit. Particularly, the workers who have had to undergo a lowering of their wages because of the frantic actions of the capitalists to stop the falling rate of profit find themselves in a situation where, because of lack of money, they aren't able to buy the consumer goods that they had produced which now belong to the capitalists.

Capitalists make use of certain methods which risk further lowering the rate of profit in order to slow down the crisis and to get rid of stock. For example, for several years now, the capitalist States have started up several programs such as the development of public investment, particularly in the form of suborganizations, such as the increasing of advertising and credits, and such as the producing of arms. In doing so, the bourgeois States were able to slow down the eruption of the crisis which elsewhere, as we see today, finally only magnifies itself to become nearly permanent!

Therefore, the time will come when the crisis is inevitable and violent. The crisis is the mechanism by which a depreciation of social capital is able to occur and a severe lowering of the value of labor-power. The crisis involves an overproduction of certain stock (commodities), a lowering of production, and the bankruptcy of the weakest capitalists. Also, for the workers and the people in general it is misery, unemployment, intensifying work-load, lowering of the real salary. The strongest capitalist will be able to buy companies which are bankrupt or in difficulty at a price **lower than their value**. This allows these huge capitalists to realize a profit from the depreciation which is the forced lowering of the value of the constant capital owned by the whole capitalist class. This in turn causes the temporary lowering of the organic composition of capital. Unemployment lowers the salaries. Several capitalists will come out of the crisis with some technical innovations which will supply them with a temporary surplus-profit. Summing it up, at the end of the crisis, there will definitely be a depreciation of existing capital and a steadying of the profit rate. The people will come out of it poorer, a considerable amount of commodities and of productive forces will have been sacrificed for profit, while several large capitalists will have strengthened their position. All is set for the preparation of the next crisis...

**To overcome the crisis,
eliminate capitalism itself**

Yes, crises are inevitable! That's the only conclusion that can be formed through the use of a scientific, Marxist-Leninist analysis of the system of capitalist exploitation. Crises are the evidence of the internal contradiction of capitalism, they are also a chance for the bourgeoisie, and particularly for its monopolist sector, to better exploit and oppress the working class and the people in general. Therefore, it's principally the working class who suffers from the capitalist crisis. And because of this, the working class has to undertake the historical task of leading the people towards a proletarian revolution and the permanent elimination of the capitalist crisis.

TO OVERCOME CAPITALISM, DOWN WITH CAPITALISM ITSELF!