

# A CRIME BEYOND DENUNCIATION

A Marxist analysis of capitalist  
crisis

Sandra Bloodworth

A Socialist Alternative publication

Published by Socialist Alternative, Melbourne 2008.

PO Box 4013, Melbourne University, VIC, 3052

First edition.

ISBN: 9780957952737

Printed by Kainos Print.

Cover by Daniel Lopez.

[www.sa.org.au](http://www.sa.org.au)

*National Library of Australia Cataloguing-in-Publication entry*

Author: Bloodworth, Sandra.

Title: A crime beyond denunciation : a Marxist analysis of capitalist economic crisis / Sandra Bloodworth.

Edition: 1st ed.

ISBN: 9780957952737 (pbk.)

Subjects: Marxian economics - Capitalism - Financial crises - International economic relations

Dewey Number: 335.412

***For all those millions of workers  
who suffer the exploitation of  
capitalism, yet continue to resist  
it and struggle for a better world.***

## Acknowledgements

Rick Kuhn considerably improved the first draft.  
Diane Fieldes, Lian Jenvey, Mick Armstrong and Tom  
Bramble also contributed to the final text with their  
comments.

Allyson Hose edited the text, Tess Lee Ack did layout;  
and Daniel Lopez designed the cover.

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# Preface

As this pamphlet was being written, the decay at the heart of the capitalist system has been brutally exposed. The world's major banks have collapsed one after another, stock markets lurch from hysterical meltdown one day to jubilant leaps the next.

The prospect as we go to publication is grim. The US has slipped into recession and many economists are predicting it will be long and deep, probably the worst in at least 40 years. At best a world recession is highly likely, at worst, a depression.

It is not possible to predict the contours of the coming economic storms in which millions will have their lives wrecked. What we can say is that capitalism has shown once again that it cannot provide a decent life for the mass of humanity. Labor Prime Minister Kevin Rudd has denounced "extreme capitalism", attacking greed as the cause of this crisis. Others in the media have gone further towards the truth to declare simply that capitalism itself has failed.

What they will not say, but needs to be said, is that the capitalist class is not fit to rule. While they condemn millions to starvation, homelessness and misery even in the richest countries, they can always find trillions for war and to give handouts to their rich and powerful mates.

There is no better time to understand how the system works, because the crisis of 2008 exposed the capitalist rulers and their system for what they are. It raised the question of a socialist alternative to the horrendous reality of capitalism.

– Sandra Bloodworth, October 2008

*“The works of the roots of the vines, of the trees, must be destroyed to keep up the price, and this is the saddest, bitterest thing of all. Carloads of oranges dumped on the ground. The people came for miles to take the fruit, but this could not be. How would they buy oranges at 20 cents a dozen if they could drive out and pick them up? ... A million people hungry, needing the fruit – and kerosene sprayed over the golden mountains.*

*“There is a crime here that goes beyond denunciation. There is a sorrow here that weeping cannot symbolize. ...children dying of pellagra must die because a profit cannot be taken from an orange. And coroners must fill in the certificates – died of malnutrition – because the food must rot, must be forced to rot.”*

– John Steinbeck, *The Grapes of Wrath*





# Introduction

We live in a mad and dreadful system ruled over by inhumane, hypocritical parasites.

For 35 years capitalists and their supporters in the media and academia stridently asserted that the free market is the most rational way to run society. To a chorus of eulogies for neoliberal individualism and self-reliance, bosses relentlessly attacked workers' living standards. Then a financial crisis hit the US in September 2008 and major banks collapsed. Overnight all these hypocrites changed their tune. The free marketeers of the Bush administration had ignored the plight of the growing numbers living in poverty, the more than 47 million without access to adequate health care, and children attending crumbling schools. Now they could suddenly find a trillion dollars to fill the coffers of the parasites of Wall Street.

It began with \$US29 billion to help JP Morgan Chase buy up Bear Sterns, followed by \$US200 billion to nationalise Fannie Mae and Freddie Mac, two of the biggest lending institutions in the US. Then they handed over \$US85 billion to take over American International Group, the world's biggest insurance company, and eighteenth-largest company. This was all topped up by the \$700 billion for the very scum who were responsible for the crisis. Soon governments in all the most developed countries were guaranteeing savings held by banks. With every day it seemed that more tens of billions of dollars were promised to fund the losses of banks or to take them over.

The executive director of the Institute of Public Affairs, an Australian free market think-tank and proponent of small government, epitomised the hypocritical thinking of the neoliberals:

*“It may be that in some cases pragmatism outweighs principle. If the US financial system and with that the rest of the Western developed world was to, if not tumble then crumble slowly down, in some circumstances there would be justification for bail-outs of these sorts.”<sup>1</sup>*

These are the same ideologues who insist that the poor and destitute have to learn to live by their own efforts, not rely on handouts from the state. Their mates who presided over the creation of this catastrophe had been raking in obscene amounts in spite of the bankruptcies they prepared. In the five years before these collapses, Wall Street’s five biggest companies paid more than \$US3 billion to their top executives. John Thain, an executive with Merrill Lynch, was paid \$US86 million for one month’s work in 2007. The CEO of Goldman Sachs had his salary doubled in 2007 to \$US253 million.<sup>2</sup> Top executives of AIG went on a \$US440,000 spree at a California resort just *after* they walked away with the gift of \$85 billion from taxpayers. The CEO who presided over the collapse of Lehman Brothers, unlike those who lost their savings, pocketed half a billion dollars as he went to spend some time in his \$US14 million home in Idaho, or to enjoy his wife’s multi-million dollar art collection in their \$US15 million Park Avenue home as he contemplated his new life of unemployment.<sup>3</sup>

All this while they presided over the packaging and sale of loans that they knew were toxic and which helped bring down the investment banking system in the country that stands at the centre of the world economy.

These bailouts were not “finance socialism” as one of the most rabid neoliberals of the Republicans denounced them. People like him cannot grasp that socialism is about the redistribution of wealth to the workers who create it and the reorganisation of the whole of society to do away with this kind of madness and chaos – far more than just letting their capitalist state intervene in the economy.

The ideological somersault was the capitalist response to the realisation that their system was in dire trouble after a year of turmoil during which the inhumanity and the rottenness at the heart of capitalism became increasingly clear. For months the media had regularly highlighted “market turmoil” in which billions of dollars were wiped off the value of corporations. Talk of a serious US recession starting a worldwide recession only added to the volatility. Glowing reports of a booming world economy were replaced by gloom and doom, even talk of

the possibility of a depression – conjuring up images of the Great Depression when millions were thrown out of their jobs and homes and were left to rot.

In the US, the world's most powerful empire, at least two million faced the prospect of losing their homes because of a "subprime" crisis. Money-lending outfits had entrapped people who had no prospect of repaying a mortgage by offering what seemed unbelievably low interest rates and good terms. When interest rates were jacked up after the initial honeymoon period many home-owners fell behind in payments. Then when the speculative bubble in real estate burst in 2007 and prices began declining, the banks and other loan sharks were only too ready to repossess property, leaving working class families destitute. By early 2008, in the country that had already spent around \$US3 trillion on killing and destruction in Iraq, shocking images began to appear on TV sets around the world of families living in tent cities on the outskirts of that mighty city of the angels, Los Angeles. But there are no angels of mercy for those who end up as the victims of the market madness that results from competition between capitalists, and the never-ending drive for profits that are the hallmarks of capitalism. By October 2008 the *Wall Street Journal* reported that:

*"After a housing slump that has pushed values down 30% in some areas, roughly 12 million households, or 16%, owe more than their homes are worth, according to Moody's Economy.com."*<sup>4</sup>

The crisis of 2008 came on top of a "jobless recovery" in the US in the 1990s, followed by a recession in the US in 2000-2001, then a second "jobless recovery" and a continuing long term decline in workers' living standards that had started in the 1970s. In fact, as jobs declined in the core manufacturing industries, George Bush's vicious regime slashed welfare programs. Unlike the 1960s when the US could have guns *and* butter, now, this superpower has ever-increasing numbers of guns but diminishing supplies of butter.<sup>5</sup>

Australia, we were told by economists in early 2008, suffered from a different problem: a *booming* economy. As soon as the new Labor government of Kevin Rudd was elected, in November 2007, its ministers began warning of the dangers of inflation; workers could forget any idea that Labor would allow decent wage rises. Economists began warning that production would need to be dampened down. They began openly discussing the need for higher rates of unemployment to help slow down

the economy and to undermine any ideas workers had about campaigning for higher wages. At the same time Labor's rhetoric emphasised getting people off welfare and into work!

And to dramatise the madness, an article in the Melbourne daily, *The Age*, commenting on the fact of 100,000 homeless in Australia, declared the "paradox at the heart of homelessness today... is that prosperity has accentuated the problem". The number of families calling homeless services had jumped 46 per cent in the past decade, which was one of "unprecedented prosperity" according to the economists. Affluence meant more investors buying homes, driving up house prices and rents, so the poor were squeezed into the streets. In this crazy system, prosperity translates into homelessness for growing numbers, not fewer.<sup>6</sup>

What sane society would want to *slow down* productive work when there's a housing crisis, schools are run down, public transport is totally inadequate, when global warming is such a problem, and when Aboriginal people desperately need housing, schools and health centres?

## The capitalist class is unfit to rule

Karl Marx and Frederick Engels wrote in *The Communist Manifesto*:

*"[I]t becomes evident that the bourgeoisie is unfit any longer to be the ruling class in society, and to impose its conditions of existence upon society as an overriding law. It is unfit to rule because it is incompetent to assure an existence to its slave within his slavery, because it cannot help letting him sink into such a state, that it has to feed him, instead of being fed by him."*<sup>7</sup>

Marx and Engels' point was never more clearly illustrated than by the food crisis of early 2008. It provides a convenient example of how capitalism works, starkly demonstrating that production is not for human need, but for profits. In March and April 2008 the world was hit by images of people rioting over food prices in Burkina Faso, Cameroon, Ivory Coast, Mauritania, Mozambique, and Senegal in Africa, as well as in Indonesia and Haiti. Thousands of workers struck and protested in the streets of Egypt demanding the most basic of human rights – the right to eat.<sup>8</sup> Food prices had risen 45 per cent in nine months. The hike in staples was even more catastrophic: 74 per cent for rice, 80 per cent for dairy products, and 130 per cent for wheat.<sup>9</sup>

Stories were beamed around the world of women feeding their children on cakes made of mud, salt and vegetable shortening in Haiti. In a mud hut in Maghleg on the Sahara's edge, Manthita Sou, a 43-year-old widow, substituted cheaper foods, such as sorghum, for wheat. But the price of sorghum had jumped 20 per cent in the past 12 months. Living on the 50 cents a day she earned weaving textiles to support a family of three, she had nothing but tea until at night she rationed a small serving of soupy sorghum meal for the family dinner. "I don't know how long we can survive like this", she said.<sup>10</sup> In Somalia 25-year-old Safia Alia hadn't eaten for a week. She was left to die by a hopeless community with her one-year-old son curled up next to her, his little face pressed against her ribs moving with her quick, shallow breaths.<sup>11</sup>

These heart-rending anecdotes are the human face of shocking figures. Half of the world's people eke out an existence on less than \$2 a day, and many of them faced the danger of starvation because of escalating food prices. But the food crisis did not just hit the poor in the developing countries. Even in the wealthiest countries millions faced the prospect of malnutrition as their poverty incomes were stretched to the limit by rocketing food prices and higher petrol prices. In 2006 over 35 million people lived in food-insecure households in the United States, including 13 million children. And this was before they were hit with the latest round of increased food prices.<sup>12</sup> In Australia, 20 per cent were living below the poverty line in 2008 according to the Australian Catholic Social Justice Council.<sup>13</sup>

Leading figures of the capitalist world weren't worried about destitution but riots. The media was full of dire warnings of social unrest summed up by Jacques Diouf, head of the UN Food and Agriculture Organisation (FAO):

*"The world food situation is very serious: we have seen riots in Egypt, Cameroon, Haiti and Burkina Faso, there is a risk that this unrest will spread."*<sup>14</sup>

This food crisis highlighted the contradictions in capitalism. There was plenty of food and the ability to produce much more. In the United States, more food is produced than the population needs. But food is a commodity like any other under capitalism. It isn't produced so that people can eat, but in order for capitalists to make profits. And its prices are the result of competition and the anarchy of the market.

Prices soared primarily because speculators, seeing commodities such as oil and minerals booming, started looking for more commodities in which to speculate. Investors fleeing the turmoil on the stock markets ploughed hundreds of millions of dollars into grain futures, driving prices up. As a writer in the *Washington Post* would put it in April 2008, “food was becoming the new gold”. Josette Sheeran, the head of the UN’s World Food Program, said in February 2008:

*“This is the new face of hunger... There is food on shelves but people are priced out of the market. There is vulnerability in urban areas we have not seen before.”*<sup>15</sup>

Under capitalism massive food supplies and mass hunger can exist side by side. During the Great Depression of the 1930s farmers were producing record crops, but in places like Australia and the US, wheat was eaten by rats, and oranges and potatoes dumped in lime pits and burnt, rather than let prices sink to the level the destitute could afford. In the 1980s we pointed to “mountains of grain and butter and lakes of wine and milk” in the European Union (EU) while millions lived on the brink of starvation. Then for years at the end of the twentieth century the EU paid millions of dollars to farmers to leave 10 per cent of arable land unused. In 2007 EU farmers were given – free – the automatic right to special subsidies in return for *reducing* production.<sup>16</sup> In 2007 the US Department of Agriculture paid farmers to leave about 16 million of the 37 million acres of farming land fallow. By 2008 the US government was trying to get farmers to go back into production – not to feed people but to take advantage of high prices.<sup>17</sup>

Internationally the US cut its support for agriculture in poor countries to \$US624 million from \$US2.3 billion. The IMF and World Bank imposed structural adjustment programs that drove masses of small farmers off their land, opening it up to agribusiness or industrial developments that fed billions of dollars into the coffers of the rich.<sup>18</sup> In other words the IMF and other global institutions created the market conditions that encouraged speculation. This in turn threatened enormous swathes of the world’s population with starvation.

There are those who *benefit* from such things as the food crisis and falling living standards. In April 2008 the *Wall Street Journal* reported that the six most profitable agribusiness companies had earned more than \$US4 billion in just one quarter. Compare those profits with the United

Nations Food Program's emergency request for \$US755 million to feed the 73 million people at risk of starvation.<sup>19</sup>

The means to avoid disasters such as the food crisis of late 2007 and early 2008 exist. But the earth's wealth and resources are owned and controlled by a tiny minority. The richest one per cent of adults own 40 per cent of global assets, and the richest 10 per cent of adults account for 85 per cent of the world total. In contrast, the bottom half of the world adult population owns barely one per cent of global wealth.<sup>20</sup>

The wealthy, in all countries, got their riches by being focused on making profits – well, some just inherited it, but their forebears got it that way.

## **Marxist economics**

How are we to understand the fact that poverty and obscene wealth exist side by side? We are told that the market is the best way humanity could possibly organise society, that competition for the riches of the world is natural, and that without the profit motive life would grind to a halt. This is a lie. It is the market and the profit system that are responsible for the terrible situation where the homeless live in the shadow of empty apartment blocks. It is the market that is to blame for food being dumped while millions starve.

In this pamphlet we will examine Marx's explanation of the crisis in the capitalist system. Now, many people say that they are bamboozled by economics. It is deliberately portrayed as something only accessible to some high and mighty elite studying in the hallowed halls of academe or immersed in the workings of the business world. However, it is possible to make sense of economics if we start out by remembering that 90 per cent of what we are taught in mainstream economics is bunk.

Understanding Marx's explanation of the workings of the capitalist system is not necessarily easy. In his great work *Capital*, Marx starts with abstract theory and then moves on to historical proof. As Marx said, if the appearance of things coincided with actual reality, there would be no need for science. Just think of gravity. In order to understand it, scientists have to examine the behaviour of objects in a vacuum in which all extraneous elements such as friction are eliminated. Then the conclusions they draw have to be integrated into an understanding of

how all the other elements they stripped from the picture interact and impact on the behaviour of falling objects.

This is how Marx develops his theory in *Capital*. He begins with what distinguishes capitalism from other class societies – the fact of mass commodity production. So he looks at the nature of the commodity, abstracted from the actual society in which it is paramount. Then he works his way back to an outline of how the system actually works, bringing all the aspects together to build up a complete picture of this commodity-producing class society.

So we need the theory because as we will see, exploitation is hidden by the way the market works; the idea that people have equal legal rights as citizens makes it difficult to see why some are rich and powerful while others have trouble keeping their head above water. So it is not that we are incapable of understanding how the economy works, it's just hidden from view. Without a theory to make sense of the dynamic behind the chaos and brutality that permeates the whole of capitalist society, it is very difficult to make sense of capitalist economics. But for those who have no stake in the system, unlike the capitalists and their hangers-on, it is not difficult to take the step from horror at the effects of capitalism on human life and the environment to understanding how it works. The point of this pamphlet is to assist you to take that step.



## CHAPTER ONE

# Commodities, labour and value

*“The wealth of those societies in which the capitalist mode of production prevails, presents itself as an immense accumulation of commodities.”*

This is the opening sentence of Marx’s *Capital*. A simple proposition you might think if you wander through a huge department store, shop in a supermarket, walk down a main street or peruse the ads that dominate magazines and our TV. But why start a major treatise on economics like this? Marx was pinpointing the feature of capitalism that distinguishes it from other social systems. In previous societies people produced what they knew their immediate household or perhaps the lord’s estate needed and intended using. Only a very small portion of their production was exchanged for something else. Under capitalism, on the other hand, things we produce for our own use, such as meals, food we grow or clothes we might make for our family, are not even counted as part of “the economy”. The products of people’s labour in previous societies and anything we produce for personal consumption in the home are **use values**.

All the things produced under capitalism for sale are commodities. They’re not produced for some known use, but to sell on the market to make a profit. Workers producing MP3 players might or might not want one, but more to the point, they may or may not be able to afford to buy one when it appears in the shops. Even workers producing food might never be able to buy it, earning enough only to buy some inferior product.

Marx defines the commodity like this:

*“A commodity is, in the first place, an object outside us, a thing that by its properties satisfies human wants of some sort or another... The utility of the thing makes it a use value... Use values become a reality only by use or consumption; they also constitute the substance of all wealth, whatever may be the social form of that wealth. In the form of society we are about to consider, they are, in addition, the material depositories of exchange value.”*<sup>21</sup>

A commodity has two aspects: use value and **exchange value**.

Something is a use value if someone wants to use it. If they use it, it's a use value. It doesn't matter if anyone else thinks it's a piece of junk, if someone uses a thing it becomes a use value. It doesn't matter if it's socially destructive, such as nuclear weapons. The fact that capitalists use them, or intend using them some time, means they are use values. It is a scientific statement about the status of commodities, not a judgement about their human worth: “whether [the desires for them] spring from the stomach, or from fancy, makes no difference” says Marx.<sup>22</sup> It doesn't matter what buyers use them for, whether to sustain themselves or to make more profits – if they use them, they are use values.

There is no way to compare the use values of commodities in order to exchange them. A commodity's use value varies with the desires, tastes and circumstances of different users. Really, their role as use values is judged qualitatively; you need/want a car, I need/want an MP3 player, a new house, and so on. The capitalist class wants more guns to arm their police, or weapons for the army to threaten their international rivals.

If the things we need were produced simply for use, they would not be commodities, simply use values. But under capitalism, as we've said, they are produced for exchange on the market. So the other aspect of a commodity is its exchange value, the proportions in which different kinds of commodities are traded for each other. It follows that there has to be something intrinsic to all commodities for them to be able to be exchanged. How do you know how many DVD players can be exchanged for enough food for a week? How can you compare a car to all the items of clothing we use, or the books, toys, CDs, computers and all the other paraphernalia we're surrounded by? If we were to say one car is worth  $x$  number of MP3 players, what does this tell us? Marx answers:

*“there exists in equal quantities something common to both. The two things must therefore be equal to a third... Each of them, so far as it is exchange value, must therefore be reducible to this third.”*<sup>23</sup>

What can this possibly be? Well, money is the obvious reply. But money can only be used as a medium of exchange once we know how much money each item, compared with others, is worth.

If we think of all the commodities in society, they cannot be compared by weight, colour, size, raw materials in them, or by the desires individuals have for them. If we strip away all these physical aspects and the subjective one of use value, we are left with one thing they have in common – they were all made by human labour. They can be compared by the amount of human labour it took to produce them. Marx says “As values, all commodities are only definite masses of congealed labour-time”.<sup>24</sup>

Take for instance some pieces of wood, nails, glue. They each have a value. But if a worker puts them all together to make a bookshelf, then it will have more value than the pieces simply added together. The difference between their original value and the new value is the amount of human labour it took to put them together as shelves.

However, immediately there is a problem. No one in their right mind will pay what it takes for an unskilled, clumsy person, using out of date tools, to make the shelves compared to the time it would take for a skilled tradesperson using modern tools or machinery. And for exchange to occur, society needs some way of comparing the value of different commodities, and a way of allocating resources according to some social criteria.

So Marx used the concept of **socially necessary labour time**. This is the time it takes to produce a given commodity using the level of technical skills, knowledge and tools or machinery that is common, or the average in society at any time.

This is the basic premise of the **labour theory of value**. Marx was not the first to develop it. Some earlier capitalist economists such as Adam Smith and David Ricardo understood that value was created by human labour. Marx developed and transformed their theory by explaining how profits are created through the exploitation of workers. But capitalist economists cannot concede this basic fact, as it undermines the legitimacy of the class to which they are committed. It reveals that the capitalists’ claims to the products of workers’ labour are a fraud. In

fact, it shows that capitalist exploitation is fundamentally the same as the exploitation of the peasantry by the old feudal regimes, which capitalists condemn as unjust.

So they invented ideologies to replace theory: they argued that capitalists are rewarded for their contribution – their investment etc; but they can't explain how profits are generated. In their ideologies workers' labour is just another factor of production along with money, machines and raw materials.

The labour theory of value provides the core of Marx's understanding of how capitalism works. So in the next chapter we will look at how the capitalists get their profits from the labour of workers.