

Sociology 621 Lecture 3
September 10, 2013

THE ANCHOR: CAPITALISM

1. A note on concepts & definitions

“Capitalism” is the first of many concepts we will be defining this semester. Here are a few others: Class, exploitation, class formation, forces of production, the state, ideology, mystification, and many many more. So, I want to say something general about words, concepts, and definitions:

Words: The same “word” is often used to identify quite different concepts, and it is very important not to get hung up on this. We will see this in our discussion of class: the word “class” is used as the term for completely different concepts.

Levels of abstraction of a definition: This is a very difficult idea. Again we will return to it many times. Let me explain with a biological analogy that I like: I had a dog Ozzie, who was a corgi. If you saw this creature in my yard and had never seen such an animal before, you might ask: what is that? There are many correct answers: Ozzie, a corgi, a dog, a canine, a mammal, an animal, a living thing. All of these are correct answers, but they differ in what can be called the level of abstraction at which the answer is being formulated. Now here is the crucial point: the appropriate level of abstraction of the concepts used to describe something depends upon the question being asked. There is no “correct” level of abstraction in general; it all depends on what the theoretical agenda and purpose is.

What I will do in this lecture is discuss capitalism at a very high level of abstraction. This is what Marxists call the level of the “mode of production”. For many purposes this is too high a level of abstraction. It would be like analyzing the behavior of a specific dog with only the concept of canine, for example. If you want to explain why Ozzie liked to herd people while Micah, the Golden retriever we had before Ozzie, never herded people but loved to fetch tennis balls even when thrown in Lake Wingra, you would need the level of abstraction of dog breeds, not mammals or canines to answer the question. The mode of production level of analysis of economic institutions may be too high for many problems, but it is the level of abstraction that anchors the diagnosis and critique and sets the stage for the elaboration of problems at lower levels of abstraction.

Concepts and Theories

Concepts really only get their full meaning from the theories of which they are a part. You need concepts to build theories, but the meaning of those concepts depends upon the theories within which they function. There is thus a deep connection between the problem of concept formation and theory construction.

One of the key things a theory does is define what can be called the relevant *contrast space for any given concept*. Evolutionary biology gives us a contrast space for distinguishing different orders of animals. Nailing down a concept, then, involves specifying the relevant kind of contrast space. We will do this with respect for a number of concepts in this course: class is contrasted to

a variety other forms of social relations and social divisions; exploitation is contrasted to a number of other forms of oppression.

2. Capitalism: the contrast space

Again: Concepts get their meaning in part from the conceptual contrast-space in which they are located. Part of our understanding of mammals comes from the contrast with reptiles.

Two issues here:

1) Mode of production is a way of classifying a society in contrast to other ways of classifying societies. Here are some alternatives:

- *Dominant Technology*: industrial vs agrarian vs hunter gatherer vs postindustrial/knowledge/information
- *Degree of Rationalization of social life*: modern vs traditional
- *Broad Cultural complexes*: Western vs Eastern
- *Religious traditions*: Judeo-Christian vs Islamic vs Confucian

2). Capitalism is itself contrasted to other ways of organizing an economy. [Within Marxism the term here is “mode of production”. This is basically a way of identifying the highest level of abstraction for identifying the salient characteristics of an economic structure.] Here the contrasts are with primitive communism, feudalism, socialism, and communism, but sometimes various other modes of production are in the list.

3. Two approaches within the Marxist tradition for developing a definition of capitalism

3.1 Capitalism as a *distinctive form of market society*:

One standard way in Marxism for introducing the concept of capitalism by distinguishing the logic of market transactions in capitalism and what is called simple commodity production. This approach is often embedded in an historical account, since the earliest forms of capitalism emerged out of simple commodity production:

1. Market transactions in *simple commodity production*: $C - M - C$. You start with some commodities you have produced, you exchange them for money which you use to buy different commodities which you need. The purpose of exchange is strictly to satisfy need. This is what subsistence farmers typically do.
2. *Capitalist commodity production*: $M - C - M'$. Here you start with a sum of money and use it to buy commodities which you use in production for the purpose of exchanging the products of the production process for more money than you started. The only reason of deploying the money capital is to end up with more than you started. Capitalism is then defined as a market system driven by the $M - C - M'$ logic of exchange. The key to understanding capitalism, in this specification, is understanding where the extra money comes from. This is the problem of surplus value.

3.2. Capitalism as a distinctive organization of production: the basic structural definition

I generally prefer to begin with a structural analysis of the distinctive elements that distinguish capitalism from other ways of organizing the economic activities of a society. It can be defined along two primary dimensions: the nature of its *class relations*, and its central mechanisms of *economic coordination across units of production*.

Class relations: Class relations are the social relations through which the means of production are owned and power is exercised over their use. In capitalism, the means of production are privately owned and the use of those means of production is controlled by those owners or their surrogates. The means of production by themselves, of course, cannot produce anything; they have to be set in motion by human laboring activity of one sort or another. In capitalism, this labor is provided by workers who do not own the means of production and who, in order to acquire an income, are hired by capitalist firms to use the means of production. The fundamental class relation of capitalism, therefore, is the social relation between capitalists and workers. We will add a lot of complexity to this in a couple of weeks.

Economic coordination: Economic coordination in capitalism is accomplished primarily through mechanisms of decentralized voluntary exchange by privately contracting parties – or what is generally called “free markets” – through which the prices and quantities of the goods and services produced are determined. Market coordination is conventionally contrasted with authoritative state coordination, in which the power of the state is used to command the allocations of resources to different purposes. The famous metaphor of “the invisible hand” captures the basic idea: individuals and firms, simply pursuing their own private interests, engage in bargaining and voluntary exchanges with other individuals and firms, and out of this uncoordinated set of micro-interactions comes an economic system that is more or less coordinated at the aggregate level.

3.3 Complexity

The definition of capitalism offered here is at the level of abstraction of “mode of production.” Actual capitalist economies, of course, are much more complex than this. This is so for two reasons:

- (1) Capitalism is mixed with a variety of non-capitalist forms in any actual economy;
- (2) There are many different types of capitalism, which vary in all sorts of ways:
 - Degree of regulation of markets, erosion of private rights over property
 - Degree of competitiveness; concentration and centralization of capital; etc.
 - Globalized capitalism vs nationally contained capitalism
 - Industry intensive capitalism vs service centered capitalism
 - Degree of financialization
 - Forms of organization of labor and capital and the associated forms of constrained cooperation

These kinds of complexity matter hugely. The implicit claim in the abstract definition is that each of these forms of complexity gains its specificity by its connection to the core elements of the more abstract concept. Not everyone agrees with this. Some people argue that social democratic economies are not variants of capitalism, but a qualitatively distinct form of economy.

4. Capitalism: core dynamics

The structural analysis of capitalism as a specific kind of mode of production is only a point of departure – a kind of structural stage setting for the substantive development of a theory of capitalism. The heart of that theory is an account of the *dynamic forces in play within capitalism*, or what Marx called the “laws of motion” of capitalism.

4.1. The key source of dynamism: The combination of these two features of capitalism – class relations defined by private ownership and propertyless workers, and coordination organized through decentralized market exchanges – generates the characteristic competitive drive for profits and capital accumulation of capitalist firms. There are two central mechanisms here that generate dynamism: competition and class struggle.

(1) *Capitalist competition*: Each firm, in order to survive over time, must compete successfully with other firms. Competition should not be viewed mainly as a *motivation* by individual capitalist firms, but as a pressure they experience in order to stay in business. There are two broad strategies that firms adopt in competition (there are many sub-types, of course – again, this is at a high level of abstraction):

- *Lower costs of production and increase productivity*. This enables firms to under-cut their rivals, increase their profits and thus expand at the expense of other firms. Firms that abstain from this, decline and then disappear. Each firm faces these competitive pressures, and thus in general all firms are forced to seek to lower costs of production in order to survive. They can do this in many ways: technical innovation, productivity-enhancing technical change, finding cheaper sources of inputs, etc. The result is a broad trajectory of productivity enhancing technological innovation over time.
- *New products & markets*. The second way to compete is to figure out new things to sell or new places to sell things. Since it takes time for other firms to copy new products and move to new markets, the early movers will have a competitive advantage. But other firms will follow, and eventually competitive pressures increase on the now expanded scale of the market.

The resulting relentless drive for profits by reducing costs and expanding markets is a central factor that generates the striking dynamism of capitalism relative to all earlier forms of economic organization.

(2) *Class conflict*: As we will see when we discuss exploitation, capitalists always face a problem of extracting labor effort from workers, getting workers to work hard and work productively. You don't have to agree with the traditional Marxist idea that the source of all profits in the aggregate is the extraction of surplus from the effort of workers to see that the performance of labor effort is a perpetual problem of capitalists. This problem is intensified when workers organize for collective resistance. There are thus also internal pressures within capitalist firms to innovate either to increase their control over labor or to reduce their dependence on the effort of workers – for example, by substituting robots for people.

There are other aspects to the dynamism of capitalism, some of which we will discuss in some later lectures. But these are the two pivotal mechanisms that generate dynamism in capitalism.

4.2 Contradictions within these dynamics

Again, there is much to say here – we will discuss some of this later – but there are many aspects of this dynamic process which can be thought of as contradictory. *What does contradiction mean?*

At its core, a contradiction means that there are chains of effects of a given process which disrupt the functioning of the process.

Here the idea is that capitalist dynamics generate chains of effects which undermine the functioning capitalism. This need not mean that those chains of effects make capitalism impossible, but simply that they continually undermine and disrupt the smooth functioning of capitalism. When these intensify sufficiently they generate what Marxists call a “crisis of accumulation” in which, in general, some kind of structural change in the conditions for accumulation is needed in order for vibrant capital accumulation to continue.

Harvey discusses these issues in terms of what he calls the “inherent barriers to continued capital accumulation”. Most of these are endogenous to the dynamics of capitalism -- they are barriers to accumulation that are generated by capital accumulation itself. (p.47):

- insufficient initial money capital
- scarcity of or political difficulties with labor supply
- inadequate means of production, including natural limits
- inappropriate technologies and organizational forms
- resistance or inefficiencies in the labor process
- lack of demand backed by money to pay in the market

This latter is often especially important and reflects what Harvey calls the “surplus absorption problem”: capitalist firms organize the production of products, and those products contain “surplus value” – that is, they are more valuable than all of the inputs used to make them – but this surplus can only be turned into money profits if the firms can actually sell what they produce. If they cannot, then they are likely to sit on hoards of capital and not invest much, since they won’t bother investing unless they can get a return. This is the current situation. Strategies to expand the market, therefore, are in part generated by this problem of finding profitable forms of investment.

4.3 An ambiguity in the analysis: From profits to Capital accumulation

Now, so far all that we have shown is that where you have competitive markets and capital/labor class relations, there will be pressures on firms to innovate in order to survive. Capitalist firms need net profits – i.e. a surplus after all existing expenses are paid – in order to innovate. But this is not yet sufficient to explain the relentless drive to accumulate capital, to expand. What is it that forces firms not merely to make profits and use them to stay competitive, but actually forces them to accumulate capital – to grow, to produce more and more, to expand?

Harvey gives what I think is not a very compelling answer:

Why do capitalists reinvest in expansion rather than consume away their profits in pleasures? This is where 'the coercive laws of competition' play a decisive role. If I, as a capitalist, do not reinvest in expansion and a rival does, then after a while I am likely to be driven out of business. I need to protect and expand my market share. I have to reinvest to stay a capitalist. This assumes, however, the existence of a competitive environment, which requires that we also explain how competition is perpetuated in the face of tendencies towards monopolisation or other social or customary barriers to competitive behaviour. I will return to this problem shortly.

There is, however, another motivation to reinvest. Money is a form of social power that can be appropriated by private persons. Furthermore, it is a form of social power that has no inherent limit.

The first sentence here is not exhaustive of possibilities: in response to competition firms could reinforce innovation and productivity without investing in expansion. If a rival invests in expansion and you don't, this will NOT drive you out of business unless by virtue of expansion the costs of your rival are lower. It doesn't matter if your market *share* declines; you can perfectly well stay in business so long as the growth of your rivals has the result of expanding the size of the market. So, why does competition not merely force a profit maximizing logic on firms, but a growth logic on individual firms as well? Why does it generate an endless accumulation of capital?

There are three explanations that I know of for the growth dynamic – for why the endless accumulation of capital is a characteristic of capitalism rather than simply profit-seeking:

- Economies of scale
- Aggregate political and economic instability from lack of growth
- Motivations of capitalists, rather than structural imperatives

1) *Economies of Scale*. This is, as far as I know, the only really compelling explanation for a structural imperative at the level of individual capitalist firms for a growth dynamic (rather than just the profit dynamic): the only reason why growth is an *imperative* for individual units of capital is because there are economies of scale for various reasons in many sectors and for many dimensions of production. This indeed does mean if you stay small then your costs become stably higher. Economies of scale include things like the costs of credit, and the lower transaction costs and discounts of large purchases of inputs, as well as technological issues like fixed infrastructure costs of production. All of these can make per unit production in small firms more expensive. Economies of scale also include the ways in which big corporations can bully suppliers, like the way Wal-Mart behaves: the power of large corporations to control the market does generate an imperative for accumulating power.

2) There is a second kind of explanation for the growth dynamic of capitalism, but this one does not make this growth dynamic an outcome of the micro-level imperatives of capitalists to

continually invest in expansion. A no growth capitalism becomes politically much less stable. Competition takes on a more intense zero-sum character. This means that collective actors have a stake in trying to create conditions for growth, even if this is not imperative for individual firms. This is the Keynesian logic for growth.

3) Capitalist motivations for power. This is the other argument that Harvey makes: “There is, however, another motivation to reinvest. Money is a form of social power that can be appropriated by private persons. Furthermore, it is a form of social power that has no inherent limit.”