
the Perspective of Formal Evolution of the Capital

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Abstract: The nature of the capital is to increase its value. At different development stages of capitalist production mode only one of the capital forms takes the dominant position. The appearance of various forms of the capital is the result of the contradictions in a capitalist society. In history, evolution of the capital has undergone four stages, namely, the commercial capital, industrial capital, financial capital and virtual capital. The types of economic crises at different stages vary in characters and forms. The loan crisis represents economic crisis at the development stage of virtual capital, which is an inevitable consequence of the development of capitalism. It is in essence of the same nature with economic crises in history.

Key words: the loan crisis form of capital institution

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The Capitalist Financial Crisis and the Route of Capitalism under the Basic Contradictions

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Abstract: This article starts with the analysis of the basic characteristics of capitalist production mode, explains that the basic contradictions of capitalism gives restraints to capitalist economic development, and meanwhile, the capital tries to get rid of these restraints by creating new conditions and surrounding. But when the potential of these conditions and surrounding were explored to their end, serious crisis would appear and put capitalist economy into recession. The article reviews the capitalist experience in 20th century. In 20th century, the capital tries to get rid of the restraints by capital export , state intervention, and financialization of the economy. But the capitalism showed its existence with great depression and world war, stagflation in 1970s, financial crisis which is confronted us. And these events created new restraints. In the future, capitalist economy must adjust its mode of development since 1970s, in this way, create new condition and surrounding for its development in the future.

Keywords: financial crisis, basic contradictions of capitalism

With more than one year's development, the American "crisis of sub-prime mortgages" has become a serious financial crisis. This financial crisis gave negative influences not only to American financial system, but also the industries and trade. It put American and world capitalism into depression. In the past months, people knew that the direct reason of crisis included the mistakes of American macro-economic policies, the serious defects in world financial system, and deregulation in American financial system. These reasons are true. But if we put the financial crisis into the long term historic logics of capitalism, we can see that this financial crisis is not just for the techniques in financial supervision and management, but the crisis of economic cycle which induced by capitalist basic contradiction. The crisis confronted us is not a regular economic cycling, we could not image that capitalism could continue developing on the road it took in past 30 years, when it gets out of the crisis. The crisis is a special result in the new stage in capitalist development, it is a logical result of world capitalist basic contradictions functioning in last part of 20th century. The crisis will give world economy profound influences, and this also enlighten us that China must carry out great adjustment to its mode of economic development and operation, with this adjustment to make itself suit to the new surrounding in the new stage.

I. The Basic contradictions in capitalism and the historic logic of capitalist development

In order to understand the developing financial crisis, we begin with a review of the basic structure and characteristics. Then we analyze the important historic events and their influences in capitalist development in second half on 20th century. With these, we explain the relation between the accumulation of the capitalist contradiction and the economic crisis confronted us.

i. The basic structure and instinct contradictions in capitalism

As a stage of production development in human society, capitalist production mode has two essential features: 1. commodity economy is a universal form in economy, and it becomes the general form in social production and whole economic life. 2. Private ownership of productive means with employed labour. These two essential features created basic contradictions and concrete contradictions in capitalist economy.

Commodity economy as a universal form in capitalist economy, it gives the social material products a form of value, which is different from their shape of use value. Though the material products with various shapes of use values, as the commodities, they are all existed as value. The form of value gives material products a universal and common property, and makes the commodities which show as various use value comparable and exchangeable, and makes the material wealth liquidity. The form of value shows as money form makes money a general representative as the social wealth. Money becomes an object pursued by people in the economic life. Therefore, economic activities become an activity for pursuing money directly. If we understand the value under the laws of commodity itself, value is just a social form which acquired from productive relations in commodity economy, money is just a final form of the value form evolution. So, value can be only formed by labour, and money is just a representative of general human labour. To observe on the whole of human society, the source of value and money can be only human labour.

Though the wealth with the form of value is exchangeable and liquidity, this is conditional. The exchangeable and liquidity must based on rational social division of labour and proportional allocation of labour among various productions. Karl Marx pointed out that value was not a kind of material, it was production relations which showed as material. The production relations include the proportional division of labour which based on social producers' rational material needs. Here "proportional" and "rational" is caused by the needs for material products in human society. It must notice that the needs for material products in human society always contain essences of social production relations. Therefore, so-call "rational" and "proportional" always show some special needs which beared from

productive relations. In capitalist productive relations, the social needs or demands contain lots of actually “irrational” contents .

The exchangeable and fluidity of social wealth must realize in its money form, so although labour products were produced as commodities or as value, they did not get their money form naturally. Labour products must experience their “the salto mortale”.

The capitalist private ownership of productive means with the feature of employed labour vests capitalist class powers to control and dominate workers’ labour and appropriate social surplus products. This feature of capitalism makes the capitalist class, which occupies and control social production conditions, could restrict workers’ consumption to the limit of labour reproduction and form lots of social surplus products in the society. Meanwhile, universalized commodity production gives social surplus products the form of surplus value. Marx said, “The capitalist who produces surplus-value — *i.e.*, who extracts unpaid labour directly from the labourers, and fixes it in commodities, is, indeed, the first appropriator, but by no means the ultimate owner, of this surplus-value. He has to share it with capitalists, with landowners, &c., who fulfill other functions in the complex of social production. Surplus-value, therefore, splits up into various parts. Its fragments fall to various categories of persons, and take various forms, independent the one of the other, such as profit, interest, merchants’ profit, rent, &c”. Surplus value’s appropriation and distribution produced very complicated and various economic categories, movement of them and agencies for their movement.

The features of capitalist economy born with instinct basic contradiction, which contents were socialized production and private ownership of production means. This contradiction created various concrete economic contradictions. Capitalist employed labour should be built upon the bases of socialized productive force to develop and consolidated. Socialized productive force created wide connection between sections of production, these connections require society considering the social production as a whole, and dealing rationally with the relations between human and nature, between production and consumption, and between people. As social productive force developing, the relations needed to deal rationally with are increasing. But, under the private ownership of production means, capitalists control the production and its products, social production is not arranged to realize the welfare of all the members of society, but in accordance with some people control others, and appropriate social wealth. The commodity style of production makes value and money as the direct things pursuing, to appropriate surplus value becomes the basic contents in business. Value and surplus value as independent categories, make the production overpass the material style of production. With value and surplus value as the direct aim, people could not see the material connection behind the value and surplus value production. Value fetishism is deeply rooting. Production is carried out in accordance with a small group people’s aim for appropriating surplus products. This endows capitalist production with tendencies of crisis instinct. When the contradictions

accumulated to some degree, crisis would break up. In the period of crisis, though there are great productive abilities in society, they could not be used for welfare of most social members. Labourers are separated from production means, and they are confronted with difficulties in their life.

Capitalist surplus production gives the condition of production and the money a property of capital, so, even out of production, capitalists could also appropriate surplus which created by workers, through controlling the ownership of productive conditions in value form. Money's property of capital brings about interest-bearing capital, and furthermore, interest-bearing capital induces **fictitious capital**, prices of lands, and various means of value creating. These categories move far from production, but they could not get rid of real production of wealth definitely, these connections bring about the possibilities and realities of crisis in financial fields.

The structure and features of capitalist economy described above are still the deep reasons that induce the economic crisis that is spreading throughout the world. After World War II, capitalist economy came into a stage of peacefully development. In this stage, pushed by the basic contradictions of capitalism, capitalist economy showed many new phenomena and features, they provided the concrete reasons and logics of financial and economic crisis confronted us.

ii. The logical process of capitalist development pushed by basic contradiction in second half of 20th century

Capitalist production mode is continually developing. The motivation of development is basic contradiction of capitalism. The basic logic is that the functioning of basic social contradictions restrains capitalist production, capitalism tries to utilize the measures provided by its own structure and mechanisms to find out new activity form, expand new fields of activity. In these ways, capitalist production could break through the limits confronted by basic contradiction. But the basic contradictions would open up in the new form, new fields of activity.

At the turn of 19th and 20th century, monopoly capitalism took the form in main capitalist countries. Monopoly intensified basic social contradictions in these countries. This led them try to export capital to colonies to relax the tension on domestic market. Capital export, on one hand, expanded the space for surplus value production, helped capital earn high profit from overseas, on the other hand, it expanded sale market and promoted commodity export. So, in the first half of 20th century, dividing world and fighting for sphere of influence were characteristics of capitalist development. In this stage, monopoly became an important phenomenon in social economic life. But the neo-classical economics, which believed in market functioning sincerely, still held views in the stage of free competition. They praise highly the policies with no state intervention. And with these,

the basic social contradictions brought about the great depression in 1930s.

After the war, with the direction of Keynesian policies, main capitalist countries drew the lessons that countries acted against each other, shifted one's trouble onto others, and defeated both before the war. They tried to build a world economic order with management. As America was most powerful country in various aspects, it formed a world order centered with America, the order is Bretton Woods system. This system provided world capitalist economy a stable surrounding. It promoted world trade and investment. All these gave capitalism, which was under the pressure by basic contradictions, new spaces for expansion. Therefore, world capitalism experienced a golden period of development in one fourth century after the war. In this period, world market was expanding. The connections between countries in production were strengthening. There appeared the trends of economic internationalization. These trends became the beginning of globalization of economy thereafter.

Though the world economic order with management provided a stable surrounding for countries in this period, it did not change the inner structure of capitalist economy, which aimed at acquiring surplus value, and it did not get rid of the basic contradictions and concrete contradictions. When the new space for capital expansion was used up, these contradictions would be intensified in new forms.

In the 1970s, the golden period of capitalism, which lasted more than 20 years, finished. World entered a period that various contradictions became intensified.

In the 1970s and after, the precise feature showed that capital put more and more emphasis on financial fields to look for resources of appropriating profit and capital accumulation. These activities caused many contradictions in world monetary and financial fields. Capitalist basic contradictions were more and more spread in these fields. This feature came from the changes of world money's property.

The capitalist production mode is a kind of economy with a strong tendency of internationalization, so it needs a proper form of world money to represent value and undertake the movement of value world wide. Marx thought that only gold could undertake the function of world money in the world market. But, in the history of capitalism, the integration of world economy always connected the powerful capitalist countries' hegemony and their expansion. With this, these countries' money occupied the position of world money, and functioned as world money in trade and investment. This circumstance made that the results of economic situation, policies inside those countries could spread into other countries and even the world by their money functioning as world money. Furthermore, those countries could utilize measures of money and finance to create the ways for capital accumulation which benefited to them. And meanwhile, they could transfer the contradictions and crises inside their own into other countries even throughout the world.

The "Bretton Woods system" before the 1970s was an international monetary system centered on the American Dollar. Bretton Woods system was an obligation for each country to

adopt a monetary policy that maintained the exchange rate of its currency within a fixed value. In this system, gold was the basis of value of world money. America promised to exchange dollars from other countries with gold in a fixed ratio. And other countries' currencies maintained exchange rates with American dollar with fixed value. Gold functioned as the value base of money, constrained the main capitalist countries, especially US freely issuing money. But, the crisis of dollar from 1971 to 1973 led the dollar break off relation with gold. The international monetary system which centered with dollar broke up, and world monetary system entered in a period of floating exchange rate. In this floating exchange rate system, dollar was still in the center as a main international reserve currency. But, as the relation between dollar and gold was broken up, world money lost its value base needed, so that there was no restraint of dollar inflation. This gave far reaching influences to the world economy thereafter. Marx said, "the sphere of circulation has an opening through which gold (or the material of money generally) enters into it as a commodity with a given value. Hence, when money enters on its functions as a measure of value, when it expresses prices, its value is already determined".¹ But, when gold was not functioning as world money anymore, dollar was not a commodity with value entering commodity circulation. Therefore, dollar lost necessary precondition for its function of value measurement. This event opened a way for inflation of money, inflation of fetish capital, and created a new space for capital appropriating profits and capital accumulation.

Capital is a moving value, but the capital movement should show value increase with money form. Marx said that circuit of money capital was the typical form of capital movement, "the generation of surplus-value by value is not only expressed as the Alpha and Omega of the process, but explicitly in the form of glittering money."² The change in monetary field in 1970s changed process of capital value increase, methods of value increase. As money lost its value basis, and in floating exchange rate system, the probability of "value revolutions" rose greatly. Marx said, "capitalist production exists and can endure only so long as capital-value is made to create surplus-value, that is, so long as it describes its circuit as a value that has gained independence, so long therefore as the revolutions in value are overcome and equilibrated in some way. " ³After 1970s, the functioning of money with no value basis made the uncertainty rising for the circuit of industrial capital on domestic and international market. This uncertainty provided financial capital with profitable opportunities, and this circumstance, in turn, caused flourishing of capital market, and promoted capital market in world flourishing.

The capitalist surplus value production created the conflict between expanding production and limited purchasing power by laborers. This conflict always troubled

1 Karl Marx: "The Capital" Vol. 1 , p140

2 Karl Marx: "The Capital" Vol. 2 , p68

3 Karl Marx: "The Capital" Vol. 2 , p122

capitalism development. Only with the expanding market, capital accumulation could be carried out successfully. And still, the surplus value production decided that capitalism was unwilling to distribute national income rationally to expand market. So, it took the method of expanding credits to stimulate market expansion. This way of expanding markets could provide opportunities to financial monopoly capital appropriating profits by the measure of money and finance. As money lost its value basis after 1970s and there no restraint on money issuing, dollars with no value basis were issued in great amount. The money issued provided financial monopoly capital with great amount of cheap funds. This circumstance brought about the trends of more and more financialized in the economy in last part of 20th century, and the trends of financial globalization.

After 1980s, economic globalization developed vigorously. Financial monopoly capital expanded its activities of appropriating profits with money and financial measures towards world wide. In contemporary world, the ways of financial monopoly capital appropriating surplus value world wide with the help of irrational international economic order are various. First, the new market economy countries needs great amount market for their processes of industrialization. Since dollar functions as world money and international reserve, the new market economy countries take America as the main market for their exports in order to support their economies. So, America could buy those countries' products with dollar which no basis of value. The great trade deficits in America actually show the appropriation of surplus labour from the countries which provide products. Meanwhile, America could sell debt bonds and get back dollar to keep its international balance of payment. Second, with its hegemonist position in global economy, America could compel money revaluation in the countries which have great amount dollar as their international reserve. This would cause these counties lose their reserve value. Third, over-issued money could export inflation to other countries through international trade. Those countries which have a lot of trade surplus have to over-issue money, and their money devaluates inside their own countries, while revaluates outside their countries. This situation would bring about difficulties for their economic growths. Fourth, Speculative capitals create international financial crisis to appropriate wealth of other countries. After 1970s, world wide monetary crisis, financial crisis took place frequently. The Southeast Asia financial crisis happened in 1997 brought about serious losses in this region.

All these show that in past decades, world capitalism put the whole world under its exploitation with market mechanisms, monetary and financial measures. These became the new way of capital accumulation, and created new space for the development of capitalism.

II. The new contradictions of capitalist development in the last part of 20th century induced the crisis confronted

The history of capitalist development showed that social basic contradiction has been restraining capital accumulation, so the accumulation could not continue itself without limits. In the whole 20th century, capital has been trying to break up the restraints and acquire new spaces for accumulation, while the new form of accumulation again met new restraints from basic contradiction. The world wide financial crisis induced by sub-mortgage crisis is the reflection of the restraints to capital accumulation in financial way and globalization of finance in last 30 years.

i.The financial crisis confronted us is the result that capital used up its accumulation space since 1970s

The reform of world monetary system in 1970s opened a new era of financialization of economy. In this era, interest-bearing capital was the main form of monopoly capital. Financial monopoly capitals tried to create various new kinds of credit instruments on financial market. With this, they expanded their credit scale and targets, meanwhile, they created new kinds of credit instruments and sale them on market to get back money capital, transferred financial risks to others. Credit instrument creation caused price of securities on the market floating up and down, and in turn, price floating brought about profitable opportunities for speculative financial capital. Through speculation, they could make money quickly and conveniently without production. About this, The Capital had ever wrote, “All nations with a capitalist mode of production are therefore seized periodically by a feverish attempt to make money without the intervention of the process of production.”¹ But, the feverish in last few decades in capitalist countries was not the same as what Marx said that “seized periodically”. The differences was that, first, the economic globalization expanded the resources of surplus value. Not only the working class in main capitalist countries has been providing surplus value to monopoly capital, but also working class throughout world, especially that in new market economies which are in their processes of industrialization have been providing surplus to monopoly capital. What financial monopoly capital should do is to appropriate the surplus with financial way in accordance of market rules, by using changes of prices of commodities, rates of interests, prices of securities. Second, dollars are issued unrestrained to buy products produced by developing countries, and sell securities to them get back money capital. For all these, financial speculation has not been taken as the activities which just appear in the period of economic flourishing, but the new kinds of activities for accumulation. Financial speculation became a new kind of “industry”.

Globalization of economy and change of money property brought about new mechanism for monopoly capital to appropriate surplus value. Though the surplus value was produced in production, but it can be appropriated with various ways. The original way

1 Karl Marx: “The Capital” Vol. 2 , p67-68

was what Marx described direct appropriation in production. Beside this, other ways include buying products with the price lower than their value, cutting wages to redistribute income favor to capital. In the globalized world economy, international monopoly capital could acquire surplus through investment in other countries, unequal exchange in trade, and fabricate services. All these became new resources of profits for financial monopoly capital. With the creations on the financial market, financial monopoly capital could concentrate surplus capital by issuing security. Further more, they could use them as interest-bearing capital.

But, to expand credit targets must be preconditioned by production expansion, production expansion must be preconditioned by market expansion. Financial way of capital accumulation did not get rid of the restraints by social basic contradictions. The way that financial capital tried to break through the restraints, was to expand credit to enlarge market. The so called “financial engineering” developed various technical instruments to expand credit targets, for example, American financial capital invented “sub-mortgage”, “Alt-A”, “Option ARMs” and so on, attracting people borrowing money for consumption. Actually, the income for interest-bearing capital must come from production eventually. The interests of consumption credit must also come from surplus value indirectly. Therefore, when financial capital used up the resources of surplus value, and they turned to take the incomes from non-surplus value as their resources of profits, financial crisis became inevitable.

We can see above, that the financial crisis confronted us is the results that capital used up the space for accumulation since 1970s. It can not see as a regular cycling economic recession. With this, we could expect that the crisis confronted us is an important event in capitalist history, the development of capitalism in the future must conditioned with new way for capital accumulation.

ii. The measures taken by capitalist countries and their property

The financial crisis brought about serious difficulties for main capitalist economies, it threatened the financial systems, gave negative influences to production. In recent months, the authorities of these countries have been taking measures, most states increase their expenditure to save the financial agencies troubled with financial crisis. According to the operating structure of capitalist economy, these measures are necessary for them to alleviate the trouble in finance. Without these measures, their economies would be confronted with more difficulties. But, what they could solve would be only the lack of liquidity caused by debt chain breaking in financial system at the moment. About this, Marx pointed out, “the retardation of the currency reflects the separation of these two processes into isolated antithetical phases, reflects the stagnation in the change of form, and therefore, in the social interchange of matter. The circulation itself, of course, gives no clue to the origin of this stagnation; it merely puts in evidence the phenomenon itself. The general public, who,

simultaneously with the retardation of the currency, see money appear and disappear less frequently at the periphery of circulation, naturally attribute this retardation to a quantitative deficiency in the circulating medium. ”¹ The way of saving economy by expenditure was based on the wrong idea that Marx pointed out. The true reasons for crisis were not lack of liquidity in circulation, on the contrary, the Federal Reserve carried out policies of low interests rate for long period, and input great of money into financial system, the money input supported inflation of **fictitious** capital, helped financial monopoly capital accumulation. The true reasons were the inflated **fictitious** capital could not find out enough resources of surplus value to support financial way of accumulation. Therefore, the measures they took could alleviate the difficulties, but could not solve the problems.

In past months, it was known as that the reasons for financial crisis included the “greedy” of Wall Street, the financial authority’s unsuccessful supervision. In spite of the superficiality of these viewpoints, they show that people are rethinking the policies of “deregulation” which had been carried out since 1990s under the new liberalism. However, the measures they are taking are still benefit to the interests of financial capital. Actually, the capitalist governments are supporting financial monopoly capital structure for surplus value appropriating by spending fiscal income that created by working people. But the structure for accumulation has arrived at its end. In the future, if capital could not find out new ways for surplus value appropriating in the sphere of capitalist production mode, the capitalism will develop in a manner of “managed capitalism”. In order to get rid of crisis, it must readjust its work, establish a financial system serving the real economy.

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