

Contemporary capitalism and the world of work

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The most significant feature of contemporary capitalism which is of relevance to the world of work is its inability to provide work to a substantial proportion of persons looking for it. This is not just a matter of economic denial, which itself can have important implications for such phenomena as hunger and crime; it also has deep socio-psychological implications of which at least two must be noted.

One is the loss of self-esteem among the unemployed which leads *inter alia* to drug and alcohol abuse and high mortality rates as a consequence. This has been noticed even in an advanced country like the U.S. A. among white males in recent years. The death rate among them has even exceeded what was noticed in Russia after the collapse of communism, and has reached levels unprecedented in peacetime. Most analysts place the roots of this phenomenon in the high unemployment rate in recent years; this rate has apparently come down of late, but the reduction is both questionable (since real wages are virtually stagnant) and also likely to be transitory (since Trump's protectionism is bound to cause retaliation).

The second is the worldwide upsurge of fascism, which, as is well-known, gets a boost in periods of high unemployment. This had happened in the 1930s; and it is happening again now. Such periods provide fertile soil for putting the blame for unemployment and the distress caused by it on "the other", which typically means some hapless minority group that is alleged to be "stealing jobs". Fascist Parties, always engaged in vilifying such groups, get the support of big business on such occasions, since the blame for people's distress is, conveniently for the latter, shifted away from the system; this helps such Parties move centre-stage, not by putting forward any

concrete agenda, but merely by projecting, with the help of the corporate-controlled media, a "strong leader" with superhuman powers who would ruthlessly suppress the "other" and overcome unemployment and distress

While high unemployment of the sort that leads to such social disintegration is symptomatic mainly of periods of crisis as at present, unemployment as such is a perennial feature of capitalism, including even at the height of the boom. A capitalist economy simply cannot function without unemployment, and one of Karl Marx's greatest contributions to the understanding of capitalism was to recognize this fact through his concept of the "reserve army of labour".

A reserve army is essential for the functioning of capitalism for several reasons. First, it is essential for the preservation of exploitation under capitalism, i.e. for a positive rate of surplus value, as it keeps down the wage rate. Schumpeter had argued against Marx that accumulation, which would occur as long as there are positive profits being earned, would necessarily push the economy to a state of full employment with zero profits; the existence of profits as a perennial category therefore has to be explained, he had suggested, on some other basis than the existence of exploitation, as Marx had done. He on his part had adduced innovations as the source of such profits. What Schumpeter had missed however is that long before the reserve army of labour had disappeared, as he had anticipated, accumulation itself would have come to a halt. Capitalism in other words spontaneously reproduces, through its accumulation behaviour, the reserve army of labour, which constitutes an essential pre-requisite for its very existence.

Second, capitalism above all is a money-using system and the preservation of the value of money is ensured by the existence of the reserve army of labour. The wage bargain is always in money terms and in a credit money world where a rise in money wages can be passed on as a rise in prices, with money supply not acting as a constraining factor on such passing on, money would cease to be a form of wealth-holding, unless there is some restraint upon the rise in money wages; and such a restraint is provided by the existence of the reserve army of labour which prevents workers from enforcing higher money wage claims by curbing their bargaining strength.

Thirdly, work-discipline which is essential for production in a factory that needs smooth coordination among several workers, is ensured by the reserve army of labour. The threat of unemployment, or the “threat of the sack”, is the weapon used under capitalism for imposing discipline upon the workers, so that they do not step out of line. In a feudal society, the whip of the *monsieur* is what imposes work discipline. In a capitalist society where physical coercion is eschewed, and commodity owners come together on an apparently equal footing so that labour power can be exchanged for money, work discipline can be imposed only by the existence of the reserve army; being thrown into its ranks always acts as a Damocles sword hanging over the heads of the workers.

It follows from this that the presumption that there would be perennial full employment in a capitalist economy in a regime of wage and price flexibility, which characterizes much of economic theory, is completely unrealistic. If there was such perennial full employment, it would make production impossible under this system: workers would not submit to its work-discipline if they were confident in the belief that they would always find another job.

Fourthly, unless there was a reserve army of labour, the throwing of vast numbers of workers into new projects that get undertaken

from time to time would not be possible without severely and haphazardly disrupting production in society. The reserve army in other words is capitalism’s way of acquiring a degree of flexibility for itself.

The fact that the system cannot do without a reserve army of labour does not mean that the size of the reserve army is limited to just what is required by the system for its smooth functioning. To be sure there is a minimum size of the reserve army of labour below which it cannot fall, and this lower bound is ensured by the spontaneous operation of the system, through the accumulation process being checked in the event of this bound being breached, but the actual size of the reserve army can be, and invariably is, well above this minimum. This runs contrary to what some authors like Goodwin have argued, namely that the average size of the reserve army that actually exists is determined by the logic of the system itself. But this is based on the Schumpeterian presumption that all profits are invariably invested, which presupposes Say’s Law that Marx (like Keynes later) had emphatically rejected. *The process of creation of unemployment under capitalism in other words is quite independent of the functional necessity of a reserve army of labour of a certain size.*

There are two fundamental limitations of the discussion that has occurred until now on the reserve army of labour. The first is what has just been said, namely that the process of creation of unemployment under capitalism is not strictly governed by the functional necessity of a reserve army of labour; its scope and extent far exceeds what this necessity *per se* would dictate. The second limitation can be appreciated once we recognize that all capitalist production requires not just labour directly employed by capitalism, but also raw materials of various kinds some of which have to be imported into the capitalist sector. The maintenance of the value of money within the capitalist sector requires therefore not just a

restraint upon money wage claims within the capitalist sector, which the reserve army of labour as traditionally understood exercises, but also a restraint upon the money-price claims of the raw material producers. Their bargaining strength too must be undermined in the interests of the stability of the system through their being placed in the midst of labour reserves from whose ranks new raw material producers can be recruited (as tenants and labourers) in the event of the existing ones “getting out of hand”.

Since these raw material producers are to a large extent located at some geographical distance from the capitalist core, we can say that *capitalism requires two quite distinct reserve armies of labour, one located domestically to sap the bargaining strength of the workers it employs, and also to achieve the other objectives mentioned above, and the other located outside of it in order to ensure that there is no inflationary threat arising from the raw material producers whose products it imports*. This second reserve army too is not just confined to what is functionally necessary under capitalism but constitutes the outcome of a process of generation of unemployment outside of the boundaries of capitalism that goes on quite independently.

The reason why this second reserve army of labour and more generally the process of generation of unemployment by the capitalist sector outside of its own boundary has not been recognized in the economics literature is because capitalism has always been analyzed without any reference to imperialism, as an isolated and closed system consisting of workers, capitalists and the capitalist State that plays the role of enforcing the rules of the game. Even Marx who wrote with such sympathy, passion and insight on colonialism, did not incorporate it into the core of his *analytical* schema. The universe of his analysis remained what it had been with classical political economy, namely a closed and isolated capitalist system. To be sure, classical

political economy had made an exception when trade between such islands of capitalism was explicitly considered, but even that had precluded any recognition of the phenomenon of imperialism.

In Marx, by contrast, there were certainly many references to colonial trade over the three volumes of *Capital*. But colonialism did not enter the analytical schema in any essential manner. It appeared in the discussion of primitive accumulation of capital in volume I, and also as one of the several counteracting tendencies to the falling tendency of the rate of profit in volume III. But it had little role to play in the accumulation process as such, which, on an average through crises, was presumed to follow the picture drawn in volume II of *Capital*, of expanded reproduction occurring within a two department scheme.

Rosa Luxemburg’s recognition that capital accumulation required a continuous encroachment by the capitalist sector upon the pre-capitalist one, a proposition that was subsequently refined and developed by Michal Kalecki, was a theoretical achievement of path-breaking significance. But she saw this process of encroachment also as a simultaneous assimilation by the capitalist sector of the pre-capitalist one, where the displaced producers in the latter, barring the (single common) reserve army, got absorbed into the ranks of the proletariat under capitalism. The idea of a degraded pre-capitalist sector lingering on perennially, yoked to the capitalist sector as part of a dichotomous world, did not figure in her work (though there were stray instances where she recognized this fact). Hence the role of a multi-class anti-colonial struggle in the outlying regions, as distinct from a proletarian revolution, also did not figure in her work.

Lenin on the other hand saw the vital importance of the anti-colonial struggle. He theorized about a new kind of democratic revolution, based on a worker-peasant alliance and led by the working class, being on the

agenda in the less capitalistically developed countries, and he accorded centrality to a world revolution based on *both* these planks, namely a socialist revolution in the advanced countries and this new kind of a democratic revolution proceeding through stages towards socialism in the less developed countries.

For this theoretical advanced he had to incorporate imperialism into the Marxist analysis of capitalism. But he did so not by developing a theory of imperialism in general, as an essential component of capitalism in all its phases, but by incorporating into Marxist theory a specific analysis of his contemporary *conjuncture* derived from the writings of Hilferding and Hobson, a conjuncture specific to a phase of capitalism. He had little time for developing an analysis of imperialism as part of the very process of accumulation of capital within the capitalist sector.

Imperialism in the comprehensive sense covering all phases of capitalism, involving capitalism's encroachment into and domination of its surrounding pre-capitalist sector which of course gets modified by this interaction, has thus remained a major absence from the purview of even Marxist analysis, let alone of economic theory in general. Because of this, both the existence of a reserve army of labour in the periphery, i.e. in the outlying region outside the boundary of the capitalist sector, and capitalism's creation of unemployment in the latter, have remained unrecognized in general.

In fact, so powerful have been these blinkers on the recognition of imperialism that "mainstream" economic theory to this day sees the rate of growth of the capitalist economy as being constrained by the rate of growth of the labour force *within it*. It has totally ignored the fact that capitalism historically, instead of merely remaining confined to the natural rate of growth of its own labour force, has moved millions of people across the globe, as slaves, coolies and indentured labourers, forcibly

uprooting them from their traditional habitats, in order to satisfy its labour needs. Such ignoring of imperialism has alas characterized the work even of theorists of Social Democratic persuasion. A whole range of them, from Solow to Piketty, have promoted the view that the system settles in "equilibrium" at a "natural rate of growth", which equals the rate of growth of the labour force in efficiency units, thus underscoring the fact that imperialism has been totally absent from economic theory.

As a matter of fact, capitalism cannot do without imperialism and this is so for two reasons. The first has to do with the question of demand. Kalecki, following the lead of Luxemburg, had argued long ago that capitalism necessarily required an exogenous stimulus to sustain its expanded reproduction. While competition, as Marx had pointed out and Bukharin had emphasized, might be the driving force behind the accumulation of capital, such accumulation need not take the form of physical assets; it could merely take the form of money when the demand for the goods produced by those physical assets is expected to be sluggish. Competition therefore cannot be adduced as stimulating *investment* as distinct from *accumulation* (an important though obvious distinction drawn by Paul Sweezy).

Now, the view that investment would occur because the market has been growing in the past and therefore would be expected to grow, i.e. that investment would occur because investment has been occurring in the past, cannot explain *sustained* growth; for in the event of a collapse of growth there would be nothing to start growth all over again. This view is what an endogenous stimulus for growth refers to. A purely endogenous stimulus for growth, it follows, cannot explain sustained growth. Exogenous stimuli therefore become essential here, for they give rise to fresh investment, quite independently of how investment itself had been behaving in the past; they can therefore help the capitalist sector to break out of its stagnation. Encroachments into

the pre-capitalist sector, i.e. snatching away the markets of pre-capitalist producers and effecting their displacement, have historically been the most powerful exogenous stimulus for capitalism.

Other exogenous stimuli have figured in the literature, but they cannot match in significance the role of encroachments into pre-capitalist markets. “Innovations” are supposed to be one such exogenous stimulus. But they are really not entirely exogenous, since the tendency to introduce innovations, and undertake extra investment for the purpose, is not independent of whether investment had been growing in the past. The skepticism about the role of innovations which was advanced at a theoretical level by Josef Steindl, is also vindicated by the historical experience of the Depressed years of the inter-war period, when a whole range of innovations remained un-introduced because of the slackness in demand.

State spending by contrast, the other exogenous stimulus that figures in the literature, does constitute an authentic exogenous stimulus, if it is financed by borrowing, or by taxes on capitalists (who unlike the workers save a significant part of their incomes). But both these ways of financing State spending are opposed by capital, especially finance capital, the reasons for which are significant.¹

Capitalists’ opposition to taxes upon themselves of course is easy to understand. But their opposition to borrowing-financed State spending for enlarging activity, which would also after all increase profits, is more difficult to follow at first sight. The reason for it lies in the fact that such intervention by the State undermines the legitimacy of capitalism, by freeing the dynamics of the system from the need to boost the capitalists’ “animal spirits” through concessions, and by demonstrating that

the system needs the crutch of the State to perform adequately.

In the post-war period when capitalism was in an existential crisis, it made a compromise to extricate itself out of this crisis, by accepting State intervention in demand management. The stimulating role of colonial markets had got more or less exhausted by then (which in my view is what underlay the Great Depression), and the working class in advanced capitalist countries was not going to accept a continuation of the high levels of unemployment that had characterized the years before the war. State intervention in demand management as suggested by Keynes appeared the only way out. But as the strength of finance capital increased during the years of the so-called “Golden Age of Capitalism”, and eventually resulted in its going “global”, the State was no longer in a position to be a provider of exogenous stimulus to capitalism. “Fiscal rectitude” as we know, has now become the order of the day, a fact not unrelated to the persistence of the current crisis of neo-liberal capitalism.

The point however is this: capitalism’s encroachment on colonial markets was not just a historical “happenstance”; it was essential for it, because in its absence capitalism would have been devoid of its dynamism. And one consequence of this encroachment was the creation of unemployment in these outlying regions through the displacement of pre-capitalist producers who could not stand up to competition from the goods produced by the capitalist sector. But while pre-capitalist producers are thus displaced, these displaced producers do not get absorbed into the capitalist sector as wage labourers. This too is not just a “happenstance” arising from the fact that capitalism *happens* not to create enough employment opportunities for absorbing them.

¹ Rosa Luxemburg incidentally was incorrect in her belief that State spending financed by taxes on workers could also provide an exogenous stimulus.

There is a very important reason for it which has to do with the second factor that makes imperialism essential for capitalism. Let me turn to this factor now.

This second factor has to do with the fact, which we have already mentioned, that apart from requiring markets at the expense of pre-capitalist producers as its exogenous stimulus, capitalism also requires a range of raw materials which it cannot do without, but which it cannot produce within its own geographical boundaries. For such raw materials it has to turn to pre-capitalist producers located in the outlying regions. Products of the tropical and semi-tropical land-mass, where peasant agriculture prevails, are one important and obvious instance of this. The magnitude of such land-mass however is fixed and most of it has been already under cultivation for quite some time. The increasing demand for the products of this land-mass from the capitalist sector therefore can be met, only in one of two possible ways: either through land-augmenting technological progress, or, alternatively, through a squeeze on the absorption of such products within the pre-capitalist sector itself.

Measures of land augmenting technological progress however typically require State expenditure. Irrigation which Marx had seen as crucial in Asian societies (and which Karl Wittfogel was to develop into a bizarre theory of Oriental despotism), is an obvious example of this. But the same hostility to State activism, which capital displays in the matter of State intervention in demand management, also prevents it from endorsing large-scale State spending in the outlying regions too. It follows that squeezing the local absorption within the pre-capitalist sector of its products demanded by the capitalist sector, or of the local absorption of substitute products, i.e. of products whose reduced absorption would then set the land free for being employed to produce alternative goods demanded by the capitalist sector, becomes essential. And as the demand for such products *increases* because of the

growth of the capitalist sector, the squeeze upon the local absorption of such goods has to keep *increasing*. Since these goods are important constituents of the consumption basket of the working people in these regions, such a squeeze on the local absorption of the goods produced by the tropical and semi-tropical land-mass necessarily entails a squeeze on their real incomes.

Such increasing real income squeeze, it follows, is logically incompatible with the absorption of the displaced producers into the ranks of the proletariat, not just at metropolitan wages but even at the wages prevailing in the capitalist sector within these regions, which must be higher than the real incomes that these displaced producers earn.

Put differently, this increasing squeeze, if we make the reasonable assumption that its impact is widely shared, must entail that at any base real wage of the capitalist sector in the periphery, the proportion of the working people in the periphery whose real income falls below this base real wage must keep increasing over time. This in turn of course is likely to keep bringing down the real wage rate even of the capitalist sector in the periphery; but let us abstract from *this dynamics* for the moment.

Now, in theoretical literature we often remain satisfied with a stark distinction between the employed and the unemployed, which in turn is often visualized as being synonymous with the distinction between the active army of labour and the reserve army of labour. But let alone the non-capitalist segments of the periphery, even its capitalist segment is characterized by casual employment, intermittent employment, part-time employment and such like, with relatively secure employment being confined to only a very small fraction of the workers. The usual distinction between employment and unemployment, between the active army and the reserve army, therefore, gets blurred in these conditions.

One way of looking at the employment issue would be to ask what proportion of the workers obtains a certain real income in absolute terms. If this proportion is decreasing then the inference can be drawn that the labour market is getting tighter and the proportion of the reserve army is falling. On the other hand if this proportion is increasing then the opposite inference can be drawn that the proportion of the reserve army is increasing.

On the basis of what has been said above we can then say the following. The increasing absorption by the capitalist sector, as a consequence of its growth, of the products of the fixed tropical and semi-tropical land-mass, which must entail a corresponding reduction of absorption of such goods within the periphery itself (both increase and reduction in absorption being visualized realistically in per capita terms),² will manifest itself as a rise in the relative size of the reserve army of labour (defined by using the concept of “income unemployment”) in the periphery. It is reflective of a process of compression of real incomes.

Such an increase in the reserve army is completely *sui generis*. It is not something which merely plays the role of reducing the bargaining strength of the workers or raw material producers; indeed it is quite independent of, and far exceeds, what may be required to keep such bargaining strength within bounds. Likewise it is not just the outcome of the displacement of pre-capitalist producers by the products of the capitalist sector, though of course such displacement is one among the many ways in which the reserve army of labour in the sense I am defining it can increase.

² When we shift to per capita terms and attribute the entire decline in per capita real absorption of the products of the tropical and semi-tropical land-mass by the working people in the periphery itself to the greater demand of the capitalist sector, then we are implicitly

I shall not be concerned here with the many ways in which this increase can be effected, but the basic point is that this increase can be called the counterpart of a process of income compression or of primitive accumulation of capital that is imposed on the outlying regions throughout the history of capitalism. And this imposition is the crux of imperialism; the various means through which it is done are the different instruments of imperialism. These instruments may change from one phase of capitalism to another, but imperialism remains essential for capitalism in all its phases.

Looking at the matter in another way, what this means is that as capital accumulation occurs there will be growing absolute poverty within the periphery, which may of course be offset by a rise in the rate of land-augmenting technological progress within peasant agriculture, if it occurs, but not otherwise.

Now, one of Karl Marx’s remarkable conclusions to emerge from his analysis of *Capital* was that capital accumulation produces growing wealth at one pole and growing poverty at another. This conclusion has been much debated. And since, if we confine our attention only to the capitalist sector in isolation, such a conclusion appears unrealistic, efforts have been made to tone it down, so that it can be shown to be more in tune with what actually occurred under capitalism.

There have been three ways in which such a “toning down” has been effected. First, the term used by Marx, “growing misery”, is interpreted as referring to not just the economic or, more generally, the material conditions of life, but to a whole array of conditions of life, such as insecurity, drudgery, and estrangement. Second, taking the working people as a whole, both the employed and the unemployed or

assuming that land-augmenting technological progress would have been just about enough to maintain over time otherwise the per capita real absorption of such goods within the periphery.

underemployed, growing “misery” has been interpreted, by those who *do* emphasize material conditions of life, as referring to *relative* rather than *absolute* impoverishment. And third, Marx’s remark has been interpreted as referring exclusively to the reserve army of labour: since with accumulation the size of the active army of labour increases, and since the reserve army, to be effective, must bear a certain ratio to the active army and hence must increase in absolute size, and, since its conditions of life are certainly quite miserable compared to the rest of society, the remark of Marx has been interpreted to mean that with capital accumulation, the absolute number of people who suffer from the misery that typically afflicts the reserve army of labour keeps increasing.

But once we extend Marx’s analysis by bringing imperialism to the centre-stage of analysis, his remark becomes powerfully prophetic. The conditions of life of a growing proportion of the working people of the world must absolutely worsen as capital accumulation

occurs, in the sense of a larger and larger proportion of them being unable to access a certain absolute minimum nutritional standard. This happens because a major input for such nutrition comes from the products of the tropical and semi-tropical land-mass, from whose absorption they must be increasingly excluded.

Marx’s greatness as a thinker gets enhanced and not diminished when we go beyond Marx himself to incorporate imperialism into the analysis of the dynamics of capitalism. And we also resolve the puzzle of why, for the world as a whole, per capita annual total (i.e. direct and indirect) cereal consumption in 2016 was lower than what it had been in 1980, though it is a well-established fact that per capita cereal consumption rises with per capita real income. The answer clearly is that while the world per capita real income increased, this was accompanied by an increase in world poverty. It is this fact which also explains the crisis in which world capitalism has been caught for over a decade now.