REVIEW ESSAY

CAPITAL AND CONTRADICTIONS

No equilibrium anywhere in sight…

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David Harvey

Marx, Capital and the Madness of Economic Reason

Profile Books, London, 2017, 236pp., $33.00, hardback.

Seventeen Contradictions and the End of Capitalism

Profile Books, London, 2017, 338pp., $23.00, paperback.

In a journal that focuses on 'What's Wrong with Economics?' reviewing books that analyse capitalism as a system of contradictions rather than equilibrium tendencies pushes the critique one stage further. It goes to a core difference between mainstream economics and political economy. Whereas neoclassical economists normally see competitive market processes as being conducive to harmony and stability, perhaps helped by a little 'fine-tuning', Harvey's alternative political economic analysis emphasises deeply-rooted tensions in the economy that can only be resolved by systemic transformation.

Harvey's books exemplify modern Marxist scholarship, to which has been a highly productive contributor over nearly half a century. His work is always stimulating and these two books continue in that vein. His most recent book is a re-telling of Marx's main propositions about the nature of capital, bridging between the original *Capital* and discussion of modern capitalism during an era of rapid technological change, globalization, financialisation and neoliberalism. The second book,

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published a few years ago and briefly noted in JAPE at that time, is an excellent companion, describing the multiple, interacting contradictions in the economic system that generate recurrent class conflicts, systemic instability and economic, environmental and social crises.

The two books have lots of overlapping themes, as one might expect. Broadly speaking, one focusses on the nature of capital and the other on contradictions. The link, obviously enough, is that contradictions emanate from having an economic system structured according to the dictates of capital rather than the direct satisfaction of human needs. It is capital's forces, fractions, foibles and fragilities that shape the economic outcomes both over space and time.

In Harvey's *Marx, Capital…* we get some careful elaboration of basic Marxist theory before more elaborate contemporary aspects are layered on. One early chapter takes the reader by the hand and guides her/him through *Capital* the book. We get detailed consideration of 'money as the representation of value', 'the theory of devaluation', 'prices without values (on the troubling relationship between values and prices), and much else besides. Most of all, we get an extended dissertation on the nature of capital and its role as a dynamic but highly erratic and accident-prone driver of capitalism.

Harvey presents us with a vivid picture of capital as multi-faceted. Most generally, capital is a social relation but it also takes a physical shape as things. It is fluid, capable of metamorphosing between different forms. Embodied in means of production like machinery, factories, offices, computers and vehicles, it is fixed and tends to depreciate in value, but renewal and expansion is integral to capital's capacity for self-expansion. It can be interest-bearing or surplus-generating, job-creating or job-destroying. It can be created, bequeathed, bought, stolen or destroyed. It's everywhere. Scholars might ponder its character yet never fully decipher its many and changing forms. Yet that is precisely what needs to be sorted out if we are to understand capitalism, its contradictions and conflicts, and the means of challenging and changing it. And that, of course, is why Marx was so concerned, nay obsessed, with identifying capital's laws of motion.

Harvey's new book provides a great road map of the territory that this exploration opens up. As someone who finds summary diagrams very helpful (and readily reproducible for students), I have to say that (on page 6) there's a particularly a neat depiction of the interrelated processes in a capitalist economy: working to produce value, distribute incomes, realise value as profits, reproduce labour power, and circulate capital. The dependence of the system on the production, reproduction and destruction of space, nature, human nature and culture complete the picture. Later (on page 151) there's another diagram, adapted from his earlier writing on cities, sketching the relation between primary, secondary and tertiary circuits of capital. These depictions of capital and income flows and their broader social, economic and environmental manifestations makes the standard textbook representation of the Keynesian 'circular flow of income' seem somewhat pallid in comparison – useful, yes, but less revealing of capital's central role in the processes that actually make capitalism work.

Adding in the dimensions of time and space is also a crucial feature. As Harvey writes in *Marx, Capital…* 'the dialectical relation between space and place is central to understanding both the constructive and destructive aspects of the motion of capital in space and time' (p.131). It is a theme that Harvey has pursued in many of his previous books: showing how the uneven and contradictory character of capitalism gives rise to changing urban forms, temporary 'spatial fixes' for the tensions in the capital accumulation process but recurrent crises when those 'fixes' come unstuck (as they almost invariably do when new contradictions emerge). Thus, for example, capital may flow into a 'secondary circuit' of investment in urban infrastructure, for example, trying to sustain processes of capital accumulation when the rate of return on capital in the primary circuit is falling. A temporary 'fix' like that can stave off the immediate prospect of recession but normally leads to a displacement rather than a long-term resolution of the problem, with the result that the contradictory elements re-emerge in new forms. Waves of urban over-development and booming (and sometimes slumping) real estate prices are among the problematic social consequences.

Harvey's other quite recent book, *17 Contradictions…*, provides a comprehensive catalogue of the diverse forms that tensions like these take. More than a catalogue though, it seeks to show the layered and interconnected character of the contradictions. The first cluster of chapters focuses on 'foundational contradictions' of capitalism, seeking to identify the root problems. To begin, Harvey draws the distinction between use value and exchange value, as has commonly been done in expositions of Marxist value theory. Taking the practical example of housing, he demonstrates the contrast between its value (for living in) and its exchange value (as a tradeable asset). Both dimensions of value co-exist but, under capitalism, the latter dominate over the former. Allocating housing through markets facilitates capital accumulation but prevents the achievement of decent, affordable housing for all. Because speculative processes inflate property prices, unaffordability becomes a major social stress. Diabolical macroeconomic consequences may result too, as happened in 2007-8 when the perverse characteristics of the US 'sub-prime' mortgage market triggered the global financial crash.

Connections like these between systemic contradictions and their problematic social consequences pervade each of the subsequent chapters. We read of the tension between the social value of labour and its representation by money, the tension between private appropriation and common wealth, between fixity and motion in the disposition of capital, and much else besides.

It is in part two of *17 Contradictions…*, however, where the critique is particularly focused on the contradictory elements embedded in capitalism during the current era of rapid technological change, globalization, financialisation and neoliberalism. The deeply troubling implications for the future of work is a recurrent theme. So too is the pervasive tendency towards the growth of more extreme economic inequalities within capitalist nations. A powerful chapter on disparities of income and wealth argues that 'capital in effect has been deepening income inequalities in order to sustain itself (p. 176), while intensifying the contradiction between the production and realization of surplus value. Harvey points to global financialisation as a key element in this process, accelerating the speed of the circulation of money capital and reducing financial transactions costs but simultaneously making capitalism 'less secure, more volatile and more crisis prone' (p.179). He adds: 'a political economy of this kind also betokens the concentration of immense economic wealth, power and privilege among the merchants and media capitalists, the financiers and the rentiers' (p.180).

The third part of the book turns to what Harvey calls the 'dangerous contradictions' (as if the matters already discussed are not dangerous enough!). 'Endless economic growth is not sustainable', he notes, but the profit-seeking and accumulation-driven capitalist system cannot readily adjust to a more sustainable process or path. Switching from industrial production to other economic sectors provides no solution. Indeed, the growth of service sectors, particularly finance, creates new problems. As

Harvey writes, in an era when ‘the parasitic forms of capital are now in the ascendant’ and ‘bond holders and central bankers rule the world’ (p.245), there is ‘a disconnect in capital’s relation to nature and human nature that is alienating in the extreme’ (p.261).

What principles and practices might take us in a different direction? Because Harvey’s *17 Contradictions…*book is unabashedly problem-saturated, it runs the risk of frustrating readers seeking some more solution-focused treatment. A brief but useful epilogue saves the day. This is where Harvey sets out, for each of the seventeen contradictions, the corresponding seventeen principles that ‘can frame and hopefully animate political praxis’ (p.294). Where there are contradictions there is always the potential for politics and for progress. Harvey’s guidelines for a post-capitalist political economic order are likely to be appreciated by readers seeking this more prescriptive element. But capitalism won’t collapse simply under the weight of its own contradictions or because a preferable alternative may be envisaged: it needs activists to drive the change, as Harvey has always emphasised. Otherwise ‘the end of capitalism’, to which the latter part of this book’s title alludes, remains unattainable.

Taken together, these latest two books by Harvey provide, in effect, a guide to ‘everything you’d want to know about capital, capitalism and contradictions but were afraid to ask’. As Harvey says in the intro to the *17 Contradictions*…:

> what I am seeking here is a better understanding of the contradictions of capital...I want to know how the economic engine of capitalism works the way it does, and why it might stutter and stall and sometimes appear to be on the verge of collapse. I also want to show why this economic engine should be replaced and with what.

Harvey is the master of this method of applying Marxism to show the systemic roots and implications of current political economic problems. Probing the contradictory characteristics of capitalism has been central to his analysis ever since the early 1970s when he began his transition from conventional geographical studies to Marxian political economy. His book *Social Justice and the City* (1973) was his first fully-fledged exposition of his distinctive contribution to a radical political economy of urbanism. I was reminded of its exhilarating character and great impact when recently writing a review of it for the journal *Regional Studies*, as part of a series of reviews of great books in that field (Stilwell 2017).

Particularly memorable for me, as an introduction to thinking about systemic contradictions, was the point he made about the tension between abundance and scarcity. Capitalist ideology promises abundance through the process of market-directed economic growth but, under actually existing capitalism, it cannot be achieved. Rather, because scarcity is a necessary condition for the functioning of markets, it must be relentlessly reproduced, leaving the prospect of abundance like an ever-present promise but a never achievable outcome. It is an insight that helps to explain diverse phenomena: monopolists and oligopolists restricting supply in order to raise prices; firms using want-creating commercial advertising to foster consumerism; financial businesses advancing credit to boost effective demand (and debt); and the extreme inequality in the distribution of income that keeps many people in desperate need while other parts of the society become almost indescribably wealthy.

Harvey's emphasis on the tension between production and realization of surplus value has also been a recurrent theme, as it has in much Marxist writing about the sources of capitalist crisis tendencies. Production of surplus value depends on keeping down production costs, but its realization in a monetary form as profits requires plentiful consumer demand. The contradiction is not hard to see. It is reflected most obviously in the dual character of wages. Wages are both a cost of production for capitalist and a source of demand for the products. From a capitalist business perspective, workers' wages are always too high in the former sense but always too low in the latter sense. It is not a matter, like pleasing Goldilocks, of finding the wage level that is 'not too little nor too much but just right'. The absence of any 'just right' position (or equilibrium) is the essence of a contradiction. We see it now in the Australian economy. The Governor of the Reserve Bank, echoing his counterparts in other nations, has been arguing the case for higher wages to stimulate aggregate demand. Meanwhile, Australian businesses are reveling in the prospect of being able to *reduce* their workers' wages following the Fair Work Commission's decision (as advocated by the Turnbull government) to reduce weekend penalty rates.

Once you start to see the world through the lens of 'contradictions', it never looks the same again. It is not just a matter of understanding the structural basis of deep-seated economic problems, however. It is also a means for understanding the broad sweep of historical changes. For me, that particular penny first dropped when reading Erik Olin Wright's book

Class Crisis and the State (1978), not long after I'd first read Harvey's *Social Justice and the City*. A wonderful diagram in Wright's book shows how contradictions at each stage of capitalist development have impeded capital accumulation, leading to systemic adaptations, new phases of accumulation, new (different) contradictions, and so on.

Geographers and historians have a more natural inclination than economists to adopt this sort of evolutionary perspective. It also seems to be in the DNA of institutional economists: indeed, it significantly defines this school of thought. Its principal pioneer Thorstein Veblen argued the case for economics being essentially an evolutionary science (Veblen 1898). The great Swedish institutionalist Gunnar Myrdal referred in one of his early writings on this topic to the difference between the equilibrium of a ball in the saucer and the equilibrium of a pencil standing on one end (Myrdal 1963). It was a memorable contrast. Applied to socio-economic concerns ranging from underdevelopment to racism and from regional inequality to industry policy, practitioners of circular and cumulative causation theory have drawn attention to the recurrent influence of virtuous and vicious cycles shaping how economies have actually developed in practice. While not synonymous with studying contradictions, it is comparably helpful in understanding historical change. Indeed, here is an obvious area where a synthesis of Marxian and institutional approaches within heterodox economics is fruitful.

Dissenting post-Keynesians have also commonly shared the disquiet with the neoclassical focus on equilibrium economics (see Kaldor 1972 for a strong example), even though they often want to retain the emphasis on formal models. Some aspects of Keynes's reasoning had equilibrium characteristics (a macroeconomic equilibrium with less than full employment, for example) but the development of what Joan Robinson labelled 'bastard Keynesianism' and its absorption into the so-called 'neoclassical synthesis' was always anathema because it negated Keynes' view of the economy as inherently uncertain and unstable. Pursuing these themes, Joan Robinson (1974) vigorously put the case for a focus on history rather than equilibrium, arguing that time is poorly treated in mainstream economics. Modern ecological economics is also naturally in tune with in evolutionary perspective: while recognising that nature may achieve temporary equilibrium states, its broader emphasis is on continuously evolving ecological processes of adaptation.

I list these alternative 'ways of seeing' economic issues to point out that the choice between a pro-capitalist orthodoxy (which is 'the madness of economic reason' to which Harvey refers in his most recent book) and the Marxian alternative that Harvey offers is not all that is on the menu. There are other schools of political economic thought from which we can draw in understanding conflict, contradiction and change. Harvey's writing makes a powerful case for the Marxian option as the most fully fledged alternative, but it is also useful to draw on institutional, post-Keynesian and ecological economics to broaden the base. People inclined to a more reformist politics are probably more likely to embrace the latter schools of thought than deal with the more revolutionary implications of a more uncompromisingly Marxist view. Yet it is also important to recognise Harvey's outstretched hand, offering those 17 guidelines at the end of his *17 Contradictions…* book and ending it with the sentence 'Alliances of interests are clearly needed' (p.297). One may infer the need for a reformist element alongside revolutionary politics and a revolutionary element in reformist politics. Indeed, there is a strong case for looking at this approach to radical reformism, previously advocated in different ways by writers such as Stuart Holland and Andre Gorz, as the best way forward in confronting contemporary capitalist contradictions. It implies a progressive politics of pursuing achievable short-term strategic gains that contain within them the seeds of more fundamental structural change. Guided by the principles that Harvey enumerates at the end of *17 Contradictions…*, it offers a credible way forward for humankind even when facing a seemingly all-powerful obstacle like capitalism.

It is not sensible to expect many mainstream economists to be won over though. Writing about the economists of his own time, Marx said: 'When confronted with a crisis, the economists can only complain that if production were carried on according to the textbooks, crises would never occur' (quoted in Harvey, 2014: 174). The situation today is not dissimilar. In some cases, there is an unshakeable ideological attachment to capitalism (though usually couched in the more sanitised language of 'market economy'). Not all mainstream economists are politically right-wing (indeed, probably no more than in the population at large) but very few have any inclination to understand, let alone embrace, an analysis based on capitalist contradictions. As Harvey observes in *17 Contradictions…*'contemporary economic science is contradiction-free' (p.175).

For neoclassical economists, capital is just an input into the process of production (represented in their textbooks as one of the axes on a two-dimensional diagram of isoquants or as one of the exogeneous variables in an aggregate production function). Capital is rewarded according to its 'marginal productivity'. In this respect, it is treated symmetrically with labour (and with land, if it is ever mentioned), each factor being rewarded according to its contribution to the whole product. There is no exploitation, power relationships nor economic surplus in sight. This is the theory that was challenged by Robinson and her colleagues during the Cambridge capital controversies of the 1960's (Harcourt 1972). In effect, what the critics were saying is that the contradictions are in the neoclassical *theory* that seeks to deny the contradictions that actually exist in capitalism. When the neoclassicals effectively lost the argument, that should have put an end to this nonsense, but it didn't. Leading neoclassical theorist Charles Ferguson said, surprisingly frankly, that adherence to the discredited orthodoxy was 'a matter of faith' (Ferguson 1969): his was evidently unshaken. Other neoclassical economists simply carried on regardless with their marginal productivity theory, aggregate production functions and all the trappings of their equilibrium economics. They still do. *Plus ca change, plus c'est la meme chose.*

Why are these somewhat esoteric concerns still relevant? I think it is because the neoclassical economists' treatment of capital cannot accommodate the observations that Harvey makes about its metamorphic character. Nor, more generally, can the methodology of comparative statics handle contradictions. The ontology of seeing capitalism (sorry, 'the market economy') through an equilibrium lens effectively eradicates any consideration of systemic conflict, contradiction and change. The only form of conflict that can be acknowledged is the conflicting goals of participants in market transactions. Buyers want to buy cheap and sellers want to sell dear. Such conflicts are readily handled by markets. The competing interests of buyers and sellers are reconciled by establishing prices at which mutually advantageous transactions occur. If all markets, whether for goods and services, labour, land or capital, serve this function then the economy works as a want-satisfying mechanism (setting aside for the moment - or, better still, for ever - the troublesome question of the initial income distribution).

Moving from a partial equilibrium to a general equilibrium analysis makes the mainstream economic bias yet more blatant. In this never-existing theoretical world, where the same harmonising forces are assumed to operate across all markets, the conditions for uniqueness and stability of the posited general equilibrium may be considered, but only as properties of the model. Similarly, the possibility of divergence between equilibrium and optimum conditions may also be formally acknowledged, but this is only a wrinkle on an otherwise smooth face. The general perception is of an economy that is flexible, self-regulating, efficient and stable. It is an ontology and method that is comparable to Newtonian physics, with the law of self-interest replacing the law of gravity as the central coordinating principle. Hence Brian Toohey's description of mainstream economics a 'physics envy' (Toohey 1994) and Ed Fullbrook's critique of it as, at best, based on an outdated conception of science (Fullbrook 2016).

To make the picture rather more complicated, it must be acknowledged that, within mainstream economics, there have been some modest attempts at reform. Path-dependency, for example, has been recognised by Paul Krugman and other 'new growth theorists' as requiring modification of neoclassical orthodoxy. Yet the modifications are at best partial. The underlying problem seems to be the path-dependency of mainstream economics itself: having set out on a particular track, there is reluctance within the profession to concede that it is heading in entirely the wrong direction. Perhaps it is the very quest for certainty which provides a deeper psychological explanation of the neoclassicals' adherence to the equilibrium approach, despite all the criticism levelled at it and the failure of the real world to fall into line with the established theory.

Neoclassical economists would surely hate the two books under review here. Harvey's political economic writing has literary and philosophical characteristics, unconstrained by disciplinary boundaries and relentless in its critique of capitalism. The mainstream economists' criteria of what constitutes 'proper' analysis is violated on every page. There's no mathematics and nothing that mainstream economists would regard as a formal 'model' anywhere in sight. We may comfortably assume that none would ever read these books.

Meanwhile, for inquiring people who seek an alternative understanding of why the economic system serves the society so poorly, they can be thoroughly recommended. Books like these can change lives, as his earlier *Social Justice and the City* contributed to changing mine more than four decades ago. The challenges 'out there' are bigger now, as economic insecurity, social inequality and ecological unsustainability have worsened. Harvey's books help to make sense of why this has happened and point to principles for making a difference.

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