

Studies in Critical Social Sciences

Luciano Vasapollo (Ed.)

Crisis of Capitalism

*Compendium of Applied Economics
(Global Capitalism)*



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Crisis of Capitalism

Compendium of Applied Economics (Global Capitalism)

By

Luciano Vasapollo



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This book is intended as a compendium of the more exhaustive, organic and articulated *Trattato di Economia Applicata* (*Treatise of Applied Economics*), with the difference that this volume presents adjustments, adjournments and a whole new section that focuses on the problems connected to the contradictory relation of capital to nature—a relation that is intrinsic to the conflict between capital and labour.

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INTRODUCTION

ECONOMICS BETWEEN SCIENCE AND 'NON-SCIENCE'
IN THE CURRENT CRISIS OF THE CAPITALIST SYSTEM

One day I said: 'I became a revolutionary in this university' but it was because I came in contact with those books. Well before I had committed myself, without having read any of those books, I was questioning capitalist political economy. Even at that time, it all seemed irrational to me; and I took a political economy course during my first year, held by Portela, 900 mimeographed pages, really difficult, almost everyone failed. That Professor was terrifying.

It was an economics that explained the laws of capitalism and examined the various theories about the origin of value; it also mentioned the Marxists, the Utopians, the Communists, in short, every economic theory. But once I began studying the political economy of capitalism, I began having great doubts, I began questioning all that.

– Speech delivered by Fidel Castro Ruz, President of the Republic of Cuba, in the Aula Magna of the University of Havana on November 17, 2005, at the Commemoration of the 60th Anniversary of his admission to the University of Havana.

Political Economy, “in a wider sense, is the science of those laws that regulate production and exchange of material means of life in human society” (Engels). It studies the system of laws that regulate production, distribution, exchange and consumption of material goods. The economic relation is a practical and productive one, for which individuals or social classes achieve their purposes by means of the product of their work. These kinds of relations define who regulates the whole production process, what are the goods that have to be produced, how to produce them, who and how many people will be able to access the market and under what conditions. Therefore, political economy should be considered as the analysis of the set of social laws that regulate a socially determined production and distribution system.

It is often thought that the substitution of political economy with so-called “economics” occurred at the end of the 19th century. *The Economics of Industry*, the work of Alfred Marshall and his wife, is regarded as the first treatise about this subject. It actually is relevant

for us to briefly comment on this work's premises, especially from the standpoint of the development of science. Modern empirical science, which started to develop during the 16th and 17th centuries in Renaissance Europe, constantly employs idealized representations of reality as foundations of experiments, reasoning and projections on reality. Working with these idealizations is not objectionable, and it constitutes a fundamental instrument for scientific work in natural, mathematical and social sciences.

As far as social sciences are concerned, the attempt to convert these idealizations into widely shared projects of perfect societies which we should slowly try to resemble represents a problem. This kind of utopian belief plays a central role in neoclassical thought, and seems to be a peculiarity of the sciences of modernity. Perfect competition, freedom of access to the market, free trade, general equilibrium, the theory of strategic market planning, functionalism with its proposal of balanced institutionalization, and many others assume the hypothesis of a perfect estimate (omniscience).

In the 19th century positivism, the idea of "tangibility" and "formalized realism" are considered as the main evidence of science. The presumed virtues of differential and integral calculus, with the form of a mathematical model, contributed to build an environment of scientific fundamentalism, a kind of metaphysics which replaces theoretical models for the concrete reality of the world and of everyday life.

Neoclassical thought brought deep changes into economic methodology, which begins to be characterized by the denial of the theory of social division of labour, followed by the refusal of the law of value, the abandonment of the theory of economic surplus and, thus, of the analysis of class contradictions. It also introduces a market-centered vision, where perfect competition is the unit of measure and regulates the whole of human interactions.

The neoclassical economist's denial of the theory of value constitutes a relevant digression. As long as the economy had been thought of as part of the human reproduction sphere, the theory of value seemed to be adequate in order to carry out such an analysis. But this element disappeared as soon as economics, intended as bourgeois science, turned into the *administration of scarcity*.

To consider scarcity as economic theory's main subject means to develop economics on the basis of supply and demand. This is the reason why Neoclassical subjective theory of value bases itself, first on utility value, and, secondly, on the empirical simplicity of deriving

prices from supply and demand, which results in the derived concepts of competition, scarcity, etc.

Despite the Neoclassical denial, we should not forget the class nature of Marx's analysis. According to Knut Wicksell (1851–1926), the theory of labour value seriously concerned neoclassicists, because of its potential of turning into a terrible weapon that could damage the existing order. If labour was the only source of value, then every other factor of private production was to be considered as a parasite of the production process itself, and their retribution as theft with labour being the one and only element with a right to remuneration.

The "Austrian school" and the school of Jevons, in England, were created independently. They were followed by Marshall, Walras and Pareto, members of the so-called "Lausanne School," who built the fundamental basics of the marginal approach to economics. This school, which was defined by "marginal utility," reflects the displacement of supply and cost towards consumer demand, transforming utility into an instrument of analysis of economic decisions. These categories did not result from a real cost, but from the subjective marginal utilities of goods. Such ideas were subsequently refined, until they could demonstrate that it is not the total utility that determines prices, but the utility for the last purchaser. This interpretation avoids the danger of contamination by the Classics and eased the use of mathematics.

Production factors began to progress autonomously so that the value of each factor could stand as a function of the prices of the goods it produced: this is what started the theory of marginal utility. During this phase of economic thought the production cycle commenced to be presented as something that had its origins in the consumer's decisions and not in the need for capital self-increase.

In his book, *Economics*, published in most of the world's languages, Paul Samuelson defines economics as the study of how people and society end up choosing, with or without the use of money, employing scarce productive resources that could have alternating uses in order to produce various commodities over time and their distribution for consumption, now or in future, among various groups in society (Samuelson and Nordhaus 2001:25). Notice how the object of study changes in regards to the cost-benefit analysis of the improvement in resources' distribution.

So the production and the reproduction of the process of economic life are replaced by processes of selection and calculation that are

aimed at narrowly delimited results. For the Neoclassicals, the object of economics is the best allocation of resources to improve the yield. Therefore, the reproduction and accumulation of capital correspond to the need of such an economic rationality.

Critiques of this interpretation of economics were soon put forward. Sismonde de Sismondi (1773–1842) complained about how British political economy, wrapped up in obscure calculations, was becoming progressively cryptic, and about the necessity to come closer to life and reality. He warned of the generation of ideas that encourage the loss of sight of the facts, while considering public welfare to correspond with an increase of economic wealth, and ignores human beings' pain.

It became clear that the economists were on a wrong path that led to a point of no return, where science was characterized by the disregard for real problems. We could mention many other scholars, such as Leontief, Robinson, Galbraith (Assman 1997: 93–193) who criticized economic science's persistent indifference to practical application and the explanation of facts. Currently, there are entire branches of economic theory that are a sort of immunization to critique, leading to an ideological denial of critiques.

Still, the attitude of the so-called "Classical economists," which outlines the very beginning of the history of this pseudo-science, was everything but technical or dogmatic: the works by Marx, Malthus, Ricardo, Smith have little in common with these abstractions or mathematical models. They rather favoured comparisons of historically determined phenomena that marked the age and country in which they occurred, such as the long lasting cycle of growth in Europe and the US, during the 19th century. Only a very little part of this lesson on realism remains in contemporary economic science, where models are often required to include, without verification by the reality of things, its dangerous ideological deviances. Ideological beliefs can exist only if adapted and used as the basis for the "rules of the game".

According to Robinson (1959:362), though many of the premises of economic theories cannot be proved, they have the ability to provide hypotheses that can be used to orient the economic actions of countries and enterprises. Such as it is, economics assumes the ideological bases of the bourgeoisie as the dominant social class. From this point of view, the necessities of the Italian academy do not derive from any judgement of value, because judgements of value, ideology and