

What is it about Capitalism that *Requires* the Creation of Huge Debt Bubbles?

[On Oct. 3, 2008, I forwarded to friends a slide show that someone prepared which summarized what [Collateralized Debt Obligations](#) and such like are, together with a few of my own introductory comments about the failure of that slide show to explain the deep causes of the crisis. My friend Kirby then responded with his email below, to which I replied at length. –S.H.]

[Kirby wrote on Oct. 3, 2008:]

I agree....but of course it wasn't trying to educate to that level. I've never read much economics (actually the book we read in book club is the ONLY economics).

Explain point number 2. — Is there actually something inherent in capitalism that **REQUIRES** debt to be built up? I would think, if you could control greed (which you and I disagree on the ability to do) that capitalism would not have these types of (current) problems.

[Scott's reply, also on Oct. 3, 2008:]

Hi Kirby,

Actually I think we *do* agree that greed cannot be controlled in *this* form of society (capitalism). Where we disagree on that issue is whether a *different* form of society can be built which does not reward greed and where there is actually little scope for greed even to exist.

Let me ask you this: When you sit down to supper with your friends and family and there is plenty of everything to go around, is anyone at the table greedy? Or would that be ridiculous in that situation? Then think for a few moments about *why* it is ridiculous in that situation, and what we could do to reorganize society so that it is virtually always ridiculous. (Hint: It involves expanding the wealth of society and distributing it fairly so that everyone has plenty of all the necessities and basic comforts of life. What name should we give to a system that does this? Marx suggested "communism".)

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Anyway, on to the main issue: "Is there actually something inherent in capitalism that **REQUIRES** debt to be built up?" The answer is definitely *yes*, there is. The answer is just a little bit complicated though, so you'll have to bear with me. (There is *no* way to explain this in a couple sentences!) I go into this fairly extensively in my pamphlet in progress on capitalist economic crises (especially chapters 1 & 2) at <http://www.massline.org/PolitEcon/crises/index.htm>. But here is a somewhat compressed version:

Workers work for capitalists (or capitalist corporations) and they produce all the wealth that exists. (All wealth—at least so far on this planet—comes from the application of human labor to the natural materials of the world around us. When we use machines to help us, then those machines have also come from human labor applied to natural materials, or were made from intermediate products that were created by human labor applied to natural materials.)

But under capitalism the products (called “commodities” if those products are produced to be sold) which are produced by this human labor do *not* belong to the workers who produce them. Instead, they belong to the capitalists who own the factories and hire the workers. The workers *are* paid something, a certain amount per hour, but of necessity this *must* on average be much less than the wealth in the form of commodities that they produce during that hour. Otherwise the capitalist could not afford to buy the raw materials, pay the overhead, and still have some profit that will allow him to stay in business.

The difference between what workers are paid and the amount the capitalists receive when they sell the commodities produced by those workers (and after they also deduct the cost of the raw materials and overhead) is what is called “[surplus value](#)”. There is a lot that should be said about surplus value and how it gets distributed in capitalist society. But briefly, some of it goes directly to the profits of the owners of the factory, some of it goes to the profits of those retailers who distribute the commodities from the factory, some it goes to the profits of the banker who loans the money to the capitalist to build the factory, and so forth.

Now if all that surplus value (including the various chunks of profit) actually went to buy goods produced from other factories, there would be no fundamental problem. Perhaps a little too much of some things would be produced, and somewhat too little of other things, but production would soon be adjusted and everything could be kept going indefinitely.

But an interesting thing about the social (collective) mode of production that exists under capitalism is that it is *enormously* productive. It might surprise you to learn that Marx is constantly praising the tremendous productive power of capitalist society. Moreover, this productive power is constantly increasing, with new more efficient techniques, ever better machinery, and almost constantly increasing productivity. This leads to the situation where more wealth is being produced per worker all the time. Over long lengths of time relatively small increases in wages have occurred (but only through great struggles). Certainly most factory workers today are generally better off than factory workers from 150 years ago. Still, the great preponderance of all the additional wealth created by the ever more productive workers goes not to the workers, but to ever increasing amounts of surplus value. And what do the capitalists do with all this ever-increasing pile of surplus value?

The capitalists themselves live lives of great luxury. They spend enormous amounts on fancy houses, cars, yachts, servants and so forth. But the level of surplus value soon becomes so great that even the most extravagant capitalists have no need for further luxuries. (How many multi-million dollar yachts does anybody want or “need”?) So what to do with all this loot that comes from the workers? Build more factories!

The capitalists don’t really know what to do with all the wealth they already have when it comes to

personal consumption, but they always do want more and more. (Here's your insatiable greed at work.) Why? Well, for one thing massive piles of wealth also bring political power and the respect (and fear!) of other capitalists. Think of all the politicians they need to buy, for example!

So, the capitalists keep expanding production, building more and more factories, which in turn piles up ever bigger amounts of surplus value.

But now the embarrassing question: Who is going to *buy* all the commodities produced by all these factories? It can't be the workers, because the workers are only paid a fraction of the value that they produce. They can therefore only *buy* a fraction of what they produce. But it won't be the capitalists either, since they are already drowning in luxuries, *and* their chief goal in life has become *greed*—piling up ever more wealth. In short, as Engels put it, under capitalism the growth of production far outstrips the growth of market demand.

In this situation there are really only *two* basic things that can be done, and both of them involve the creation of ever more debt. The first is to loan money to the workers themselves, so they can buy what their wages do not allow them to buy. This is why consumer debt, and *ever increasing* levels of consumer debt, are *absolutely necessary* to capitalism.

The other thing that can be done, especially if consumer debt is reaching its limits, is to have the government buy more and more commodities. (Of course production then shifts to the sorts of things the government wants to buy, especially weapons and war supplies.) But if the government gets the money from taxes from the workers (which is where most tax money comes from) then the workers just have that much less money to spend. So there is no net boost to the economy. Only if the government gets its money through *deficit financing* (i.e. either by building up government debt or by simply printing up more money) will there be any net boost to the market.

The trouble, of course, is that inflating the currency ultimately leads to disaster, as does ever increasing government debt.

Anyway, this in short, is *why* capitalism requires the constant increase in debt in order even to exist. The debt is in two main forms—consumer debt and government debt. Not only must this debt constantly increase, but taken as a whole, it must constantly increase at an *ever-greater speed!* (I.e., it is an exponential sort of situation.) Can this continue forever? Think of the growth of bacteria in a Petri dish: exponential growth always leads to disaster in the end.

I'd be happy to expand on any of this, or answer any questions or objections.

Scott

bcc: Others