Seventeen Contradictions and the End of Capitalism

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Part One

The Foundational Contradictions

The first seven contradictions are foundational because capital simply could not function without them. Furthermore, they all hang together in such a way as to make it impossible to substantially modify, let alone abolish, any one of them without seriously modifying or abolishing the others. Challenging the dominant role of exchange value in the provision of a use value like housing, for example, implies changes in the form and role of money and modifying, if not abolishing, the private property rights regime with which we are all too familiar. The search for an anti-capitalist alternative consequently appears a rather tall order. Simultaneous transformations would have to occur on many fronts. Difficulties on one front have also often been contained by strong resistances elsewhere such that general crises are avoided. But the interlinkages between the contradictions on occasion turn toxic. An intensification of a contradiction of one sort can become contagious. When contagions multiply and magnify (as clearly happened in 2007–9), then a general crisis ensues. This is dangerous for capital and creates opportunities for systemic anti-capitalist struggle. This is why an analysis of the contradictions that produce such general crises is so important. If oppositional and anti-capitalist movements in particular know what broadly to expect as the contradictions unfold, then they will be better positioned to take advantage of, rather than being surprised and stymied by, the way the contradictions move around and deepen (both geographically and sectorally) in the course of crisis formation and resolution. If crises are transitional and disruptive phases in which capital is reconstituted in a new form, then they are also phases in which deep questions can be posed and acted upon by those social movements seeking to remake the world in a different image.

Contradiction I
Use Value and Exchange Value

Nothing could be simpler. I walk into a supermarket with money in my pocket and exchange it for some food items. I cannot eat the money but I can eat the food. So the food is useful to me in ways that the money is not. The food is shortly thereafter used up and consumed away, while the bits of paper and coins that are accepted as money continue to circulate. Some of the money taken in by the supermarket is paid out in the form of wages to a cashier who uses the money to buy more food. Some of the earnings go to owners in the form of profit and they spend it on all sorts of things. Some of it goes to the middlemen and eventually to the direct producers of the food, who all also spend it. And so it goes on and on. In a capitalist society millions of transactions of this sort take place every day. Commodities like food, clothing and cellphones come and go, while the money just keeps on circulating through people's (or institutions') pockets. This is how daily life is currently lived by much of the world's population.

All the commodities we buy in a capitalist society have a use value and an exchange value. The difference between the two forms of value is significant. To the degree they are often at odds with each other they constitute a contradiction, which can, on occasion, give rise to a crisis. The use values are infinitely varied (even for the same item), while the exchange value (under normal conditions) is uniform and qualitatively identical (a dollar is a dollar is a dollar, and even when it is a euro it has a known exchange rate with the dollar).

Consider, as an example, the use value and the exchange value of a house. As a use value, the house provides shelter; it is a place where people can build a home and an affective life; it is a site of daily and biological reproduction (where we cook, make love, have arguments and raise children); it offers privacy and security in an unstable world. It can also function as a symbol of status or social belonging to some subgroup, as a sign of wealth and power, as a mnemonic of historical memory (both personal and social), as a thing of architectural significance; or it simply stands to be admired and visited by tourists as a creation of elegance and beauty (like Frank Lloyd Wright's Falling Water). It can become a workshop for an aspiring innovator (like the famous garage that was the epicentre of what became Silicon Valley). I can hide a sweatshop in the basement or use it as a safe house for persecuted immigrants or as a base for trafficking sex slaves. We could go on to list a whole raft of different uses to which the house can be put. Its potential uses are, in short, myriad, seemingly infinite and very often purely idiosyncratic.

But what of its exchange value? In much of the contemporary world we have to buy the house, lease it or rent it in order to have the privilege of using it. We have to lay out money for it. The question is: how much exchange value is required to procure its uses and how does this 'how much?' affect our ability to command the particular uses we want and need? It sounds a simple question but actually its answer is rather complicated.

Once upon a time, frontier pioneers built their own houses for almost no monetary cost: the land was free, they used their own labour (or procured the collective help of neighbours on a reciprocal basis – you help me now with my roof and I will help you next week with your foundations) and acquired many of the raw materials (timber, adobe etc.) from all around them. The only monetary transactions would have been those concerned with the acquisition of axes, saws, nails, hammers, knives, harnesses for the horses and suchlike. Systems of housing production of this sort can still be found in the informal settlements constituting the so-called slums of many cities in developing countries. This is how the favelas of Brazil get built. The promotion of 'self-help housing' by the World Bank from the 1970s onwards formally identified this system of housing provision as appropriate for low-income populations in many parts of the world. The exchange values involved are relatively limited.

Houses can also be 'built to order'. Someone has land and pays architects, contractors and builders to construct a house according to a given design. The exchange value is fixed by the cost of raw materials, the wages of labour and payment for the services required to build the house. The exchange value does not dominate. But it can limit the possibilities of creating use values (there is not enough money to build a garage or a whole wing of the aristocratic mansion does not get built because the funding runs out). In advanced capitalist societies many people add to the existing use values of a house in this way (building an extension or a deck, for example).

In much of the advanced capitalist world, however, housing is built speculatively as a commodity to be sold on the market to whoever can afford it and whoever needs it. Housing provision of this sort has long been evident in capitalist societies. This is the way in which the famous Georgian terraces of Bath, Bristol, London and the like were built at the end of the eighteenth century. Later on, such speculative building practices were harnessed to erect the tenement blocks of New York City, the terraced housing for the working classes in industrial cities such as Philadelphia, Lille and Leeds, and the tract housing of the typical American suburb. The exchange value is fixed by the basic costs of the house's production (labour and raw materials), but in this case there are two other costs added in: first, the profit mark-up of the speculative builder, who lays out the initial necessary capital and pays the interest on any loans involved, and, second, the cost of acquiring, renting or leasing the land from property owners. The exchange value is set by the actual costs of production plus profit, interest on loans and capitalised rent (land price). The aim of the producers is to procure exchange values not use values. The creation of use values for others is a means to that end. The speculative quality of the activity means, however, that it is *potential* exchange value that matters. The builders of the housing actually stand to lose as well as to gain. Obviously, they try to orchestrate things, particularly housing purchases, to ensure that this does not happen. But there is always a risk. Exchange value moves into the driver's seat of housing provision.

Seeing the need for adequate use values going unmet, a variety of social forces, ranging from employers anxious to keep their labour force domesticated and to hand (like Cadbury) to radical and utopian believers (like Robert Owen, the Fourierists and George Peabody) and the local and national state, have from time to time launched a variety of housing programmes with public, philanthropic or paternalistic funding to provide for the needs of the lower classes at a minimum cost. If it is widely accepted that everyone has a right to 'a decent home and a suitable living environment' (as stated in the preamble to the US Housing Act of 1949), then, obviously, use value considerations are brought back to the forefront of struggles over housing provision. This political stance very much affected housing policies in the social democratic era in Europe and had spillover effects in North America and in selected parts of the developing world. The involvement of the state in housing provision has, obviously, waxed and waned over the years, as has the interest in social housing. But exchange value considerations often creep back in as the fiscal capacities of the state are put to the test by the need to subsidise affordable housing out of shrinking public coffers.

There have been, then, a variety of ways in which the tension between use values and exchange values in housing production has been managed. But there have also been phases when the system has broken down to produce a crisis of the sort that occurred in the housing markets of the United States, Ireland and Spain in 2007–9. This crisis was not unprecedented. The Savings and Loan Crisis in the USA from 1986 on, the collapse of the Scandinavian property market in 1992 and the end of the Japanese economic boom of the 1980s in the land market crash of 1990 are other examples.[1]

In the private market system that now dominates in much of the capitalist world, there are additional issues that need to be addressed. To begin with, the house is a 'big ticket item' that will be consumed over many years and not, like food, be instantaneously used up. Private individuals may not have the money up front to buy the house outright. If I cannot buy it with cash, I have two basic choices. Either I can rent or lease from an intermediary – a landlord – who specialises in buying speculatively built housing in order to live off the rents. Or I can borrow to buy, either getting loans from friends and relatives or taking out a mortgage with a financial institution. In the case of a mortgage, I have to pay the full exchange value of the house plus the monthly interest over the lifetime of the mortgage. I end up owning the house outright after, say, thirty years. Consequently, the house becomes a form of saving, an asset whose value (or at least that part of the value that I have acquired through my monthly payments) I can cash in at any time. Some of that asset value will have been sucked up by the costs of maintenance (for example, painting) and the need to renew deteriorated items (for example, a roof). But I can still hope to increase the net value I command as time goes on by paying off my mortgage.

The mortgage finance of a housing purchase is, however, a very peculiar transaction. The total paid out on a $100,000 mortgage over thirty years at 5 per cent is around $195,000, so the mortgagee in effect pays a premium of $95,000 extra in order to acquire an asset valued at $100,000. The transaction hardly makes sense. Why would I do this? The answer, of course, is that I need the use value of the house as somewhere to live and I pay $95,000 to live in the house until I take full ownership. It is the same as paying $95,000 rent to a landlord over thirty years except in this case I ultimately secure the exchange value of the whole house. The house becomes, in effect, a form of saving, a repository of exchange value for me.

The exchange value of housing is not, however, fixed. It fluctuates over time according to a variety of social conditions and forces. To begin with, it is not independent of the exchange values of surrounding houses. If all the houses around me are deteriorating or people of 'the wrong sort' are moving in, then my house value is very likely to fall even though I keep it in tip-top shape. Conversely, 'improvements' in the neighbourhood (for example, gentrification) will increase the value of my house even though I myself have invested nothing. The housing market is characterised by what economists call 'externality' effects. Homeowners often take action, both individual and collective, to control such externalities. Propose building a halfway house for released criminals in a 'respectable' neighbourhood of homeowners and see what happens! The result is a lot of 'not in my back yard' politics, exclusions of unwanted populations and activities, and neighbourhood organisations whose missions are almost exclusively oriented to the maintenance and improvement of neighbourhood housing values (good neighbourhood schools have a big effect, for example). People act to protect the value of their savings. But people can also lose their savings when the state or investors take over housing in a neighbourhood destined for redevelopment and let that housing deteriorate, thus destroying the market value of the housing that remains.

If I do invest in improvements, then I might want to be careful to do only those that clearly add to the house's exchange value. There are lots of 'advice books' for homeowners on this topic (building a new state-of-the-art kitchen adds value but mirrors on all the ceilings or an aviary in the back yard does not).

Home ownership has become important for larger and larger segments of the population in many parts of the world. The maintenance and improvement of housing asset values have become important political objectives for larger and larger segments of the population and a major political issue because the exchange value for consumers is as important as the exchange value earned by producers.

But over the last thirty years or so, housing has become an object of speculation. I buy a house for $300,000 and three years later its value has appreciated to $400,000. I can then capitalise upon the extra value by refinancing for $400,000 and walk away with the extra $100,000, which I can use as I wish. The enhanced exchange value of housing becomes a hot item. The house becomes a convenient cash cow, a personal ATM machine, thus boosting aggregate demand, including, of course, the further demand for housing. Michael Lewis in *The Big Short* explains the sort of thing that happened during the run-up to the crash of 2008. The childminder of one of his lead informants ended up owning, with her sister, six houses in Queens in New York City. 'After they bought the first one, and its value rose, the lenders came and suggested they refinance and take out $250,000 – which they used to buy another.' Then the price of that one rose too and they repeated the experiment. 'By the time they were done they owned five of them and the market was falling and they couldn't make any of the payments.'[2]

Speculation in housing market asset values became rife. But speculation of this sort always has a 'Ponzi' element attached. I buy a house on borrowed money and the prices go up. More people are then attracted to the idea of buying into housing because of rising property values. They borrow even more money (easy to do when lenders are flush with money) to buy into a good thing. Housing prices go up even more, so even more people and institutions get into the game. The result is a 'property bubble' which eventually pops. How and why such bubbles in asset values like housing form, how big or small they are and what happens when they pop depends on the configurations of different conditions and forces. For the moment all we have to accept, on the evidence of the historical record (from the property market crashes of 1928, 1973, 1987 and 2008 in the United States, for example), is that such manias and bubbles are part and parcel of what capitalist history is about. As China has moved closer to adopting the ways of capital, so it has also become increasingly subject to speculative booms and bubbles in its housing markets. We will revisit the question why in what follows.

In the recent property market crash in the United States, about 4 million people lost their homes through foreclosure. For them, the pursuit of exchange value destroyed access to housing as a use value. An untold number of people are still 'under water' in their mortgage finance. This refers to a situation in which someone who purchased a house at the height of the boom now owes a financial institution more money than the house is worth on the market. Owners cannot get out of ownership and move without taking a substantial loss. At the height of the boom, housing prices were so high that many could not get access to use values without assuming a debt that would ultimately prove unpayable. After the crash, the financial drain of being stuck with a certain bundle of use values has had remarkably dire effects. The reckless pursuit of exchange value destroyed, in short, the capacity for many to acquire and afterwards sustain their access to housing use values.

Similar problems have occurred in rental markets. In New York City, where some 60 per cent of the population are renters, many large rental complexes were bought out at the height of the boom by private equity funds looking to make a killing by raising rents (even in the face of strong regulatory laws). The funds deliberately ran down the current use values to justify their plans for reinvestment, but then themselves went bankrupt in the financial crash, leaving tenants with deteriorated use values and higher rents living in foreclosed properties whose ownership obligations were often unclear (who you call to fix a non-functioning furnace in a housing complex in foreclosure is not at all obvious). Nearly 10 per cent of the rental housing stock has suffered from these sorts of problems. The ruthless pursuit of maximising exchange values has diminished access to housing use values for a large segment of the population. And to top it all, of course, the housing market crash triggered a global crisis from which it has proved very difficult to recover.

Housing provision under capitalism has moved, we can conclude, from a situation in which the pursuit of use values dominated to one where exchange values moved to the fore. In a weird reversal, the use value of housing increasingly became, first, a means of saving and, second, an instrument of speculation for consumers as well as producers, financiers and all the others (real estate brokers, loan officers, lawyers, insurance agents etc.) who stood to gain from boom conditions in housing markets. The provision of adequate housing use values (in the conventional consumption sense) for the mass of the population has increasingly been held hostage to these ever-deepening exchange value considerations. The consequences for the provision of adequate and affordable housing for an increasing segment of the population have been disastrous.

In the background to all this has been the shifting terrain of public opinion and public policy on the proper role of the state in the provision of adequate use values and basic needs to populations. Since