

# Capitalism - an introduction



libcom.org's brief introduction to capitalism and how it works.

At its root, [capitalism](#) is an economic system based on three things: wage labour (working for a wage), private ownership of the means of production (things like factories, machinery, farms, and offices), and production for exchange and profit.

While some people own means of production, or capital, most of us don't and so to survive we need to sell our ability to work in return for a wage, or else scrape by on [benefits](#). This first group of people is the capitalist [class](#) or "bourgeoisie" in [Marxist](#) jargon, and the second group is the working class or "proletariat". See our [introduction to class here](#) for more information on class.

Capitalism is based on a simple process – money is invested to generate more money. When money functions like this, it functions as capital. For instance, when a company uses its profits to hire more staff or open new premises, and so make more profit, the money here is functioning as capital. As capital increases (or the economy expands), this is called 'capital accumulation', and it's the driving force of the economy.

Those accumulating capital do so better when they can shift costs onto others. If companies can cut costs by not protecting the [environment](#), or by paying sweatshop wages, they will. So catastrophic [climate change](#) and widespread poverty are signs of the normal functioning of the system. Furthermore, for money to make more money, more and more things have to be exchangeable for money. Thus the tendency is for everything from everyday items to DNA sequences to carbon dioxide emissions – and, crucially, our ability to [work](#) - to become commodified.

And it is this last point - the commodification of our creative and productive capacities, our ability to work - which holds the secret to capital accumulation. Money does not turn into more money by magic, but by the [work we do every day](#).

In a world where everything is for sale, we all need something to sell in order to buy the things we need. Those of us with nothing to sell except our ability to work have to sell this ability to those who own the factories, offices, etc. And of course, the things we produce at work aren't ours, they belong to our bosses.

Furthermore, because of long hours, productivity improvements etc, we produce much more than necessary to keep us going as workers. The wages we get roughly match the cost of the products necessary to keep us alive and able to work each day (which is why, at the end of

each month, our bank balance rarely looks that different to the month before). The difference between the wages we are paid and the value we create is how capital is accumulated, or profit is made.

This difference between the wages we are paid and the value we create is called "surplus value". The extraction of surplus value by employers is the reason we view capitalism as a system based on exploitation - the exploitation of the working class. *See this [case study on the functioning of a capitalist restaurant](#) for an example.*

This process is essentially the same for all wage labour, not just that in private companies. Public sector workers also face constant attacks on their wages and conditions in order to reduce costs and maximise profits across the economy as a whole.

## Competition

In order to accumulate capital, our boss must compete in the market with bosses of other companies. They cannot afford to ignore market forces, or they will lose ground to their rivals, lose money, go bust, get taken over, and ultimately cease to be our boss. Therefore even the bosses aren't really in control of capitalism, capital itself is. It's because of this that we can talk about capital as if it has agency or interests of its own, and so often talking about 'capital' is more precise than talking about bosses.

Both bosses and workers, therefore, are alienated by this process, but in different ways. While from the workers' perspective, our alienation is experienced through being controlled by our boss, the boss experiences it through impersonal market forces and competition with other bosses.

Because of this, bosses and politicians are powerless in the face of 'market forces,' each needing to act in a way conducive to continued accumulation (and in any case they do quite well out of it!). They cannot act in our interests, since any concessions they grant us will help their competitors on a national or international level.

So, for example, if a manufacturer develops new technology for making cars which doubles productivity it can lay off half its workers, increase its profits and reduce the price of its cars in order to undercut its competition.

If another company wants to be nice to its employees and not sack people, eventually it will be driven out of business or taken over by its more ruthless competitor - so it will also have to bring in the new machinery and make the layoffs to stay competitive.

Of course, if businesses were given a completely free hand to do as they please, monopolies would soon develop and stifle competition which would lead to the system grinding to a halt. The state intervenes, therefore to act on behalf of the long-term interests of capital as a whole.

## The state

The primary function of the state in capitalist society is to maintain the capitalist system and aid the accumulation of capital.

As such, the state uses repressive laws and violence against the working class when we try to further our interests against capital. For example, bringing in anti-strike laws, or sending in police or soldiers to break up strikes and demonstrations.

The "ideal" type of state under capitalism at the present time is liberal democratic, however in order to continue capital accumulation at times different political systems are used by capital to do this. [State capitalism in the USSR](#), and [fascism in Italy](#) and Germany are two such models, which were necessary for the authorities at the time in order to co-opt and crush

powerful working-class movements. Movements which threatened the very continuation of capitalism.

When the excesses of bosses cause workers to fight back, alongside repression the state occasionally intervenes to make sure business as usual resumes without disruption. For this reason national and international laws protecting workers' rights and the environment exist. Generally the strength and enforcement of these laws ebbs and flows in relation to the balance of power between employers and employees in any given time and place. For example, in France where workers are more well-organised and militant, there is a maximum working week of 35 hours. In the UK, where workers are less militant the maximum is 48 hours, and in the US where workers are even less likely to strike there is no maximum at all.

## History

Capitalism is presented as a 'natural' system, formed a bit like mountains or land masses by forces beyond human control, that it is an economic system ultimately resulting from human nature. However it was not established by 'natural forces' but by intense and massive violence across the globe. First in the 'advanced' countries, enclosures drove self-sufficient peasants from communal land into the cities to work in factories. Any resistance was crushed. People who resisted the imposition of wage labour were subjected to vagabond laws and imprisonment, torture, deportation or execution. In England under the reign of Henry VIII alone 72,000 people were executed for vagabondage.

Later capitalism was spread by invasion and conquest by Western [imperialist](#) powers around the globe. Whole civilisations were brutally destroyed with communities driven from their land into waged work. The only countries that avoided conquest were those - like Japan - which adopted capitalism on their own in order to compete with the other imperial powers. Everywhere capitalism developed, peasants and early workers resisted, but were eventually overcome by mass terror and violence.

Capitalism did not arise by a set of natural laws which stem from human nature: it was spread by the organised violence of the elite. The concept of private property of land and means of production might seem now like the natural state of things, however we should remember it is a man-made concept enforced by conquest. Similarly, the existence of a class of people with nothing to sell but their labour power is not something which has always been the case - common land shared by all was seized by force, and the dispossessed forced to work for a wage under the threat of starvation or even execution.

As capital expanded, it created a global working class consisting of the majority of the world's population whom it exploits but also depends on. As [Karl Marx](#) wrote: "What the bourgeoisie therefore produces, above all, are its own grave-diggers."

## The future

Capitalism has only existed as the dominant economic system on the planet for a little over 200 years. Compared to the half a million years of human existence it is a momentary blip, and therefore it would be naive to assume that it will last for ever.

It is entirely reliant on us, the working class, and our labour which it must exploit, and so it will only survive as long as we let it.

## More information

- [The great money trick - Robert Tressell](#) - a clever short introduction to how capitalism exploits workers from Tressell's famous novel *The Ragged Trousered Philanthropists*.

- [Work Community Politics War - prole.info](#) - an excellent introductory illustrated guide to capitalism and anti-capitalism.
- [Capitalism and communism - Gilles Dauvé](#) - a more detailed history and analysis of capitalism and its antithesis, communism.
- [Capital - Karl Marx](#) - Marx's definitive analysis and critique of capitalism. Heavy going but definitely worth giving a try at some point.
- [Capitalism - further reading guide](#) - libcom.org's guide to further reading on capitalist economics.
- [Capitalism](#) - libcom.org's capitalism tag