

Why is capitalism running out of gas?



Published Online by
Socialist Labor Party of America
www.slp.org

July 2006

Why is capitalism running out of gas?

PUBLISHING HISTORY

PRINTED EDITION October 1977

ONLINE EDITION July 2006

NEW YORK LABOR NEWS
P.O. BOX 218
MOUNTAIN VIEW, CA 94042-0218
<http://www.slp.org/nyln.htm>

Foreword

This booklet consists of two articles from the *Weekly People* and a resolution passed at the 30th National Convention of the Socialist Labor Party.

Taken together, they outline a socialist view of the “energy crisis,” which in the past few years has been pushed to center stage and become something of a catch-all heading for the problems of capitalism in the 1970s. Though the analysis is far from exhaustive, it cuts to the heart of the matter, namely the economic roots of the energy situation and the political, class nature of the official solutions, particularly the Carter administration’s energy package.

Inasmuch as it takes the workers’ point of view, it contains an analysis quite unlike the oil company propaganda echoed by the press or the constant suggestions from the government that the solution to the energy problem is a drastic reduction in our standard of living.

The politics of energy

I.

With each successive administration, American workers are presented with a new crisis.

Under Lyndon Johnson, it was the Vietnam war. With Nixon it was the “constitutional crisis” precipitated by Watergate. During the Ford administration, it was the worst economic slump in four decades.

Each of these crises has bared a fundamental problem inherent in the U.S. capitalist system, i.e., imperialist war, political repression and periodic economic collapse. And in each instance, the U.S. ruling class has tried to repair the damage to its social order by calling for “national unity.”

It was therefore a well-established pattern that the Carter administration followed when, after just a few months in office, it announced its own particular crisis — the energy crisis — and declared that the solution again lay in rallying ’round the national unity flagpole. In unveiling his legislative energy package in spring of 1977, Jimmy Carter supposedly took up a position above political and class interests. He encouraged a crisis atmosphere deliberately designed to make his proposals more palatable to American workers.

For example, shortly before announcing his administration’s energy measures, Carter cited a “secret” CIA report concocted by cronies of energy czar James R. Schlesinger, former director of the CIA. The report purported to prove that demand for energy would outstrip production in the 1980s, creating enormous pressure for rapid changes.

Typically, the CIA report was contradicted a short time later by a special UN report which said the world had enough petroleum resources to last another 100 years. But it had already served its purposes and contributed to the crisis atmosphere which Carter hoped would get the American people behind his new policy. By labeling the energy situation “the moral equivalent of war” — a thesis so far unchallenged even by his program’s bourgeois critics who only trivialize the debate by quibbling with minor points — Carter began to prepare workers for reductions in their use of

Why is capitalism running out of gas?

energy, higher prices and possible mandatory rationing.

The “classless” thrust of administration rhetoric was quickly picked up by the media, whose cooperation is absolutely crucial to the creation of the cultural, social and ideological atmosphere Carter’s energy plans require. Soon after the President’s April speech, *New York Times* columnist James Reston wrote, “It is not the mathematics of his message but the philosophy that counts. He is simply saying that we are running out of gas. and getting in a jam and that is not a regional, political or class problem, but a national problem.”

To be sure, the ruling class consistently denies the class basis of any social problem wherever possible. But a propaganda campaign depicting the energy problem as one cutting across class lines, and the solution as one in which all burdens will be shared equally, is especially necessary for the simple reason that everyday reality is teaching U.S. workers quite a different story.

Twice in recent years — first during the oil embargo of 1973 and again in the frigid winter of 1976–1977 — millions of Americans found themselves hostages of an energy crisis that closely resembled simple extortion. The sudden appearance of fuel “shortages” — first in gasoline and then in home heating fuels (particularly natural gas) — created massive hardship and huge expenses for millions of workers on the one hand, and record profits for energy capitalists on the other.

The “great oil embargo” found workers waiting in long lines at gas stations while the only lines for oil capitalists were at the bank. Likewise during the bitter cold winter of 1977, workers could barely heat their homes and some had their fuel completely cut off, while energy capitalists again had profits to burn.

These experiences nourished a pervasive cynicism among American workers and led large numbers to discount entirely the existence of any energy crisis at all. Confirmed reports of companies deliberately holding back supplies and similar maneuvers fed the skepticism.

As is explained below, such cynicism tends to overlook the very real and deep problems facing capitalism which have surfaced at the moment in the field of

Why is capitalism running out of gas?

energy. But to the extent that the experiences of 1973 and 1977 reflected the inevitable class inequality involved in any capitalist response to the energy crisis, they were absolutely accurate.

The class nature of the problem, and of Carter's specific legislative proposals, becomes more clear when one looks at the prospects for future energy development.

The development of presently untapped energy sources and alternative energy technologies basically presents an economic problem, not a "natural" one. There are ample alternatives to our present fuel sources and even some bright prospects on the drawing board, but the realization of these prospects is not now *profitable* for the energy conglomerates. This problem of generating sufficient profits in the course of developing new energy sources is a capitalist class problem of immediate concern primarily to the owners of the energy monopolies — hardly a sufficient reason for workers to embrace an austerity program.

The crux of nearly every energy scheme set forth by either the White House or the oil companies in recent years has been to raise energy prices — and thereby the profits involved in energy production. Again the class bias of this "solution" is so transparent it requires camouflage.

For instance, Carter is supposedly seeking elaborate tax manipulations which will sharply raise the price of energy without complete "deregulation" or "windfall profits" for energy firms. The specifics of these proposals won't be finally known until the energy package passes through the special interest mill in Congress. But the outcome — higher prices for worker-consumers — is already known and it makes little difference in the long run whether the resultant "windfall profits" are managed by the energy monopolies themselves or by the government they and their class counterparts so thoroughly control.

The sleight of hand involved in the Carter proposals is further reflected in his "tax rebate" plans. While raising prices significantly through energy sales taxes, Carter is promising a partial rebate for spending elsewhere. Not only will these rebates fail to offset the increased costs, but many workers will recall the fate of the \$50 tax rebate promised by Carter in the winter of 1976–1977, only to be scrapped in the

Why is capitalism running out of gas?

spring as “unnecessary.”

Despite pretensions of fairness, poor workers especially will face more energy-related hardships in the near future. Regulating energy consumption through sales taxes is simply rationing by price. This method inherently favors the rich and again reflects the class nature of capitalism, which is putting many of the necessities of life further and further beyond the reach of working-class families.

Carter’s proposed “tax credits,” for example, would be the same for all income levels, though poor families would pay a higher percentage of their income for oil and gas. Without alternative transportation systems in many localities, the cost of getting to and from work will soar, especially for workers unable to afford new “fuel economy” cars and forced to feed their old gas guzzlers with higher priced gasoline.

Moreover, what good are the much-publicized “home insulation” tax breaks if a worker can’t afford the initial costs of insulation or storm windows? The emphasis on conserving “home heat” in many cases will simply provide landlords with a patriotic excuse for cutting back on heat in apartments — a practice already in evidence last winter.

Given these glaring inequities, which stand out everywhere in Carter’s energy program even before it has been put into full effect, it’s easy to understand the results of the *New York Times* poll which surveyed reaction to the energy package. It found that “support for the proposals seemed to divide rather sharply along social class lines.”

II.

Under the banner of national unity, the Carter administration has also raised the call for “conservation.” At first glance, conservation would seem to be as alien to the nature of capitalism as any consideration could be. For generations, capitalism has recklessly squandered priceless natural resources without regard for the future. Indiscriminate waste was encouraged and approved by the small class that profited from it.

But conservation has finally been placed on the agenda by the only kind of

Why is capitalism running out of gas?

motivation to which capitalists respond — economic self-preservation. As Energy Director James Schlesinger put it, “Conservation happens to be one of the few areas in which economic objectives, foreign policy objectives and environment objectives all coincide. I might add that through conservation one can obtain the equivalent of a barrel of oil for a dollar and a half. That’s the only way we are going to get oil for a dollar and a half. Conservation visibly makes economic sense.”

While the administration’s emphasis on conservation is challenged in some quarters by those who fear it will further slow an already stagnating economy, overall capitalists seem convinced that it’s time to enforce energy cutbacks. The question is whether an inherently wasteful system can reverse itself.

To come up with an answer takes only a brief look at exactly how and why capitalism wastes its energy resources.

Because capitalist production is ruled by profitability, a whole range of commodities and processes have come into general use without regard for their energy efficiency. Little or no effort has been made to find those products and practices that would use the least amount of energy to perform a given task.

If energy resources are finally to be conserved, as Barry Commoner has shown in his popular book, *The Poverty of Power*, energy efficiency must be rated not against the variety of inefficient systems now — generally being considered, but against the most efficient product or system feasible.

For example, instead of comparing a car that gets 13 miles per gallon to one that gets 39, the efficiency of cars themselves must be measured against other systems of transportation. In other words, the automobile must be compared to possible forms of mass transit in order to gauge energy efficiency or waste.

When these types of comparisons are made, it becomes clear that many of the commodities, which today dominate society are inherently wasteful from an energy standpoint. They cannot simply be improved, but must be totally transformed or replaced.

The dimensions of the problem are staggering. As Commoner writes, “Through the

Why is capitalism running out of gas?

workings of the private-enterprise system, we have been provided with the wrong kinds of heating and cooling devices, the wrong kinds of automobiles and freight carriers, the wrong kinds of power plants, the wrong kinds of fuels. No society, however wise or disciplined, can readily create a rational system for the efficient production and use of energy out of such inappropriate ingredients. These goods have not been foisted on us out of malice, or even — in most cases — out of greed. These inappropriate, wasteful and sometimes harmful commodities have been produced and sold as local embodiments of the accepted principle that, in a capitalist economy, governs what is produced — the maximization of profit.”

Genuine conservation, then, would have to extend far beyond Carter’s weak stab at an energy program. It would have to be based on a total reorganization of the economy and production processes on the basis of criteria other than profit.

This cannot and will not happen under capitalism. Above all, such conservation implies *planning*, and as any defender of private enterprise will tell you, planning means socialism. The kind of meaningful reorganization of production which would match energy systems with the work to be done, is only possible in a planned economy organized on the basis of social production for use, not private ‘profit.

Moreover, such a total reorganization implies a number of choices and decisions which can only be made fairly if they are made democratically by all workers cooperatively engaged in production. In a capitalist, economy, where the rule of the boss is dictatorial, the planning called for by the “energy crisis” — where it occurs at all — will have totalitarian overtones.

But for the most part there will be no far-reaching reorganization in the direction of energy efficiency. Under capitalism, “conservation” will translate itself into a class-biased program of enforced austerity for working people and disastrous “no-growth” programs. This economic stagnation will be matched by deepening social and cultural decay, increasing ecological atrocities and similar frightening prospects.

The feeble proposals in the Carter energy package are those of a system thoroughly locked into its wasteful ways. That, after so much sound and fury, they are the best the system could come up with leads to an unmistakable conclusion: simply stated, *capitalism* is the energy crisis.

The economics of energy

For many workers, sorting out the “energy crisis” seems a nearly impossible task. Given the usual bias and superficiality of the analysis in the capitalist media, and the real complexities of the situation, the job of unraveling its meaning often seems beyond our grasp.

But without denying these complexities, it is possible, with the help of Marx’s economic theories, to get a handle on the fundamental significance of the crisis in relatively clear terms. In the process, one can start to see how the energy crisis, far from some unique “challenge of nature,” is but part of a generalized economic and social crisis bound up with high inflation and unemployment, cutbacks in social services, stagnation in real wages and living standards, and all the other hardships and ideologies associated with the newly proclaimed “era of limits.” Moreover, it becomes clear that the energy crisis is not the cause of these other problems, but only one of the most acute reflections of the deeper capitalist cause. To get such a vantage point, however, we must climb up from basics.

Those familiar with Marxist economics know that the analysis of wage labor exploitation is of central importance to understanding how a capitalist economy works. It explains how labor creates all exchange values, how these values are divided into wages for the workers (v) and surplus value for the capitalists (sv), and how the relationship between these two quantities (sv/v) is the real measure of exploitation, a ratio called the rate of surplus value.

This process of dividing labor’s product is the material-economic basis for the class struggle between worker and capitalist at the point of production. But to understand the kind of problems capitalism is running into today, we need to know more than the origin of surplus value. We need to know why this system is having trouble maintaining itself smoothly, assuring its renewal, and continuing its expansion.

For this it’s necessary to look not only at the rate of surplus value, but, at the rate of profit. Whereas the first measures surplus value only against wages, the rate of profit measures surplus value against *all* the capital expenditures necessary for

Why is capitalism running out of gas?

production. This includes wages (or variable capital) plus constant capital (c) — the raw materials, energy, machinery, etc. used in producing commodities — and it is expressed in the formula $sv/c+v$

The relationship between constant and variable capital, and its effect on the rate of profit, holds a key to some of the fundamental forces at work behind the phenomena popularly known as the energy crisis.

However necessary to production, constant capital can never be a source of new surplus value. The machinery, raw materials, etc. used as constant capital represent what Marx called “dead labor.” The value they contain has been put there by past labor, and while this value can be transferred to other commodities, it cannot be increased. For example, if \$1,000 worth of steel is used to make a car, the value of the constant capital (in this case \$1,000) reappears in the finished car, but no new value, hence no surplus value, has been created.

What constant capital does do is employ, or “set in motion,” variable capital (living labor). It provides the means of production and materials for variable capital to do its work. Unlike constant capital, variable capital does create new values (which, as shown above, are divided into wages and surplus value). In fact, variable capital is the sole source of new value.

The process of capitalist production, then, brings together constant and variable capital in order to produce more exchange values, i.e., more commodities. And as can be seen in the formula $sv/c+v$, the relationship between constant and variable capital has a direct effect on the overall profit rate.

Following the intricacies of this relationship and its effect on the rate of profit presents complex theoretical problems. (Rosa Luxemburg called it the “basic problem of Marxist economics.”) But despite risks of oversimplification, it is both possible and useful to point to some of the broad implications, particularly those that seem to have a definite bearing on the energy and related situations.

Put most simply, there is a tendency as capitalism develops for constant capital to increase in relation to variable capital, and for this process to manifest itself in a

Why is capitalism running out of gas?

falling rate of profit. The tendency of the rate of profit to fall, in turn, restricts the system's expansion and generally constitutes a tendency toward stagnation.

There are a number of ways to understand this process. For example, as capitalism develops, machines replace workers and greater labor productivity means commodities can be produced in less labor time. This displacement of variable capital is the displacement of the only source of surplus value and hence puts a direct squeeze on the rate of profit. While the greater employment of constant capital generally brings a more efficient extraction of surplus value from the remaining variable capital, the system's overall tendency to displace labor still means an overall tendency to narrow its base of profit (as well as a tendency to create a "surplus population").

In terms of a specific branch of industry, it may mean that ever greater investments in means of production are required to "Stay in business, and that these rising constant capital costs (c) depress the profit rate. Meeting these and future capital costs requires squeezing more surplus value out of a smaller workforce, as rising rates of surplus value are needed' to offset falling rates of profit and to maintain sufficient return on total investment.

Two cautions are necessary. First, the falling rate of profit is a tendency, not an inflexible iron law. There are many counter-balancing factors and other variables at work. Second, a fall in the rate of profit should not be confused with a fall in the absolute mass of profits. Total profits can rise by deploying more capital even if the rate per unit of capital declines: In fact, the search for new areas for expansion is one of the prime avenues capitalism pursues in an attempt to overcome a falling rate of profit in one area.

Nevertheless, the tendency for the rate of profit to fall as constant capital increases relative to variable capital throughout the economy retains a general applicability.

How does all this relate to the energy crisis?

First, it's necessary to dismiss the fiction that capitalism's energy problems, at least at this point, are in any way the product of a quantitative exhaustion of the present

Why is capitalism running out of gas?

fossil fuels. Every authority not in the pay of the oil monopolies agrees that the existence of 40 or 50 years worth of oil and gas reserves within the U.S. alone is a conservative estimate. Moreover, the potential for energy alternatives, from coal to nuclear power to solar energy, is unlimited. Without debating their relative merits, the important point here is that the energy crisis does not stem from any inherent natural limits, but from the inability of the capitalist economy to develop and deliver the existing or potential energy resources, and this is very much tied up with the tendencies toward a falling rate of profit.

The energy industry is a prime case of a sector in the capitalist economy where constant capital has been increasing rapidly in relation to variable capital and where, consequently, the limitations on expansion implied in the profit relation are emerging. Generating sufficient levels of surplus value to provide the resources for the massive capital expenditures needed to insure energy growth has become extremely difficult. Likewise the prospects for a high return on such investments, even if they could be made, do not now appear bright enough to motivate the energy giants.

Some figures help describe this situation.* Over \$180 billion in constant capital, nearly a third of all the assets of the top 500 U.S. corporations, is invested in the energy/petrochemical industry. The capital costs of the average production unit are massive, e.g. \$500 million for an oil refinery, \$1–2 billion for a nuclear power plant.

In 1971, the petroleum industry had the highest level of capital invested per worker of all industries, \$117,865. As Barry Commoner describes it, “A petrochemical plant is typically a vast network of pipes and vessels, with a few workers monitoring control valves and making repairs.” The degree to which this accumulation of constant capital has displaced variable capital can be gauged by the fact that in 1913, 56 hours of living labor were necessary to produce 10,000 gallons of gas. In 1955, the figure was 24 *minutes*.

A further survey indicates how the growth of constant over variable capital has affected the rates of surplus value and profit.

* All figures are taken from *The Poverty of Power*, Barry Commoner, Knopf, 1976; and “Late Capitalism,” Ernest Mandel, NLB, 1975.

Why is capitalism running out of gas?

In 1971, the petroleum sector had the highest value-added per man-hour worked in all industry, \$28.43. This was more than twice the all-industry average and implies a very high rate of labor productivity and surplus value.

In the same year, however, the industry had the lowest rate of value-added per dollar of capital assets, just \$34. This was less than a third of the all-industry average, and suggests a low rate of profit on total capital.

Taken together these figures describe an industry with enormous capital investments, a high rate of surplus value and a huge *mass* of profits, but with a low return on total capital investment, i.e., a relatively low rate of profit.

From this starting point, it would be both difficult and unprofitable for the energy industry to embark on a new and even greater program of capital expansion, and it is this characteristically capitalist dilemma that is crippling energy development in the U.S. today. Before even considering a massive capital program, the oil/energy giants are demanding a long list of investment incentives, manifold price increases, tax breaks and more to improve the chances of a high rate of return. But even this may not be enough.

The mammoth size of the project and the difficulties even monopolies have in financing it on a profitable basis, make the energy crisis a strong impetus for leaps toward state capitalism — best reflected by the \$ 100 billion energy development program proposed by Nelson Rockefeller a few years ago. Though Carter has yet to offer a comparable program, one can be expected before too, long.

In this connection, *Fortune* magazine's response to the Carter energy package was quite significant. It declared, "A great deal of the investment in new forms and sources of energy will have to come from the U.S. government. With capital requirements so huge and payoffs so remote and so uncertain, the job cannot be left up to the free market." (May, 1977.)

The inability to generate the resources for its own profitable expansion are most striking and visible in the energy industry. But to a greater or lesser degree they affect the entire capitalist economy.

Why is capitalism running out of gas?

This is where the link becomes clear between the energy crisis and ever rising prices, high unemployment, the current corporate offensive to cut back spending for social services, the stagnation of real wages, etc. All these phenomena have the aim of reducing the consumption of the working majority and putting more of the total social output at the disposal of capital. They are parts of a generalized austerity dictated by the needs of the system, including the many-faceted problems associated with the tendency of the rate of profit to fall.

Today the manifestations of this crisis have begun to appear in every area, social and cultural as well as political and economic. Since their cause runs so deep, they can be expected to intensify steadily, and as they do it will grow more and more difficult to describe a basic, and possibly terminal crisis of the capitalist system, in the narrow terms of an energy crisis.

SLP resolution on energy

The so-called “energy crisis” is yet another striking example of the antisocial character of the capitalist economic system. As with other manifestations of this deteriorating system, the full brunt of this crisis will fall on the working class.

To elucidate this view, let us make a comparative advantage case—let us compare what we workers *could* do if we owned and controlled the industries, with what we are forced to do, so long as we accept capitalist ownership and control of industry.

Under capitalism oil and natural gas are extracted only so long as they can be sold at a profit. Being an increasingly mechanized industry, the energy companies have experienced a fall in the *rate* of profit over the years (although their profits in absolute terms have been astronomical). There has thus been a tendency towards progressively smaller energy company investments in domestic oil and gas extraction, and more capital invested in other activities. One such activity is investment in *foreign* oil and gas extraction, which makes these supplies subject not only to the monopolistic market manipulations of the energy companies, but of the political cartel known as OPEC as well.

The only way that the capitalist system can continue to produce domestic supplies of oil and natural gas is to increase profit incentives by using their monopolistic stranglehold on the market to withhold supplies and force the price up. This has led to an absurd situation: They can only *extract* additional oil and gas by *providing* less of it, at a higher price. Moreover, this rising price does not merely reflect the rising *cost* of extraction, but also an increase in required profit incentive for each *increment* of cost increase, as the process continues to become more mechanized.

Thus, the shortages we face today do not result from the accepted fact that these resources are in finite supply, but rather from the fact that the capitalist controllers of the energy industry benefit from *creating* shortages before they occur naturally. According to all estimates that are undistorted by corporate interests, we *could* extract enough petroleum from the earth beneath the U.S. alone to last at least 50-60 years at present rates of consumption, and enough natural gas to last at least another 30 years at present rates of consumption.

On the energy demand question, we workers *could* design far more efficient methods of using these finite resources such that they could last far longer than the

Why is capitalism running out of gas?

above estimates. These methods could readily be applied in transportation and industrial processes, home and building heating, and products for consumption.

But under capitalism, it is now more profitable to have us use trucks instead of trains, cars instead of mass transit, electrical heating instead of a variety of less wasteful methods, etc. Here again, the limits of nature are circumscribed by the limits of our economic system.

In addition, if we workers established socialism, we *could* use far more efficient methods of extracting and transporting the fuels themselves. But under capitalism, cutting costs to the minimum brings profits to the maximum, and we are forced to act accordingly. Also, we workers could allocate both our research and production labor time toward a serious effort to apply solar energy to perform various tasks, but since it is not presently profitable enough to the big energy companies, it is not being done on a major scale.

In short, we workers *could* very easily use our existing supplies of nonrenewable energy sources for a long enough period of time to effect the transition to safe and renewable sources of energy, without any appreciable inroads being made on our quality of life. But under capitalism, inroads on our quality of life will be the only appreciable type of “conservation” that we are likely to see, the extraction of fossil fuels will cease long before the recoverable supplies have been exhausted, and the transition to safe, renewable sources of energy is a doubtful proposition at best.

The “energy crisis,” then, is an artificial situation engendered by the conditions of capitalism. Under these conditions, the workers of this country have been asked to accept not only more austerity, but accelerated construction of nuclear fission power plants, investments into an expanded breeder reactor program, and accelerated production of strip-mined coal. Nuclear fission reactors not only pose grave environmental dangers, but are economically viable only with subsidies from tax money, and will become still less viable as supplies of uranium diminish. Breeder reactors might be economically viable, but the potential environmental dangers are far more serious. As for accelerating the strip-mining program, we deal here not with potential dangers, but a practice that has spelled environmental disaster, of which we have seen considerable evidence.

Fortunately, many members of the working class have recognized that these alternatives are unacceptable, and have begun active resistance to the attempts to have them forced upon us. It is imperative that we of the Socialist Labor Party also

Why is capitalism running out of gas?

raise our voices and state that these alternatives are not only unacceptable, but, based on the foregoing summary analysis, are also not in the least bit necessary. Therefore, be it resolved at this 30th National Convention of the Socialist Labor Party that:

1. The SLP declares that the continued calls for sacrifice on the part of the working class stem not from the empirical need to conserve natural resources, but rather from the fact that profit motivation precludes the possibility of conservation through restructuring industrial practices, and limits our ability to produce such resources.

2. The SLP is opposed to such methods of energy production as strip mining and nuclear power development as they are currently practiced under capitalism, where profit considerations are ranked above considerations of safety and logic.

3. These methods cannot be legislated out of existence, and capitalism in decay is incapable of providing an acceptable alternative energy policy. Therefore, the SLP shall make every effort to promote the one alternative that can both halt these practices and end the so-called “energy crisis” that makes them *appear* to be necessary. This solution can only consist of the establishment of democratic worker ownership and control of the industries as described in the socialist industrial union program of the SLP.

4. The SLP shall support movements such as those resisting current nuclear energy expansion and strip mining. Whenever and wherever possible, we shall encourage them to go beyond the narrow scope of their current activity, and work towards the socialist reconstruction of society.