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# INTRODUCTION

This handbook is not, of course, a substitute for the study of Marxist political economy, but an aid to that study. It will perhaps prove most useful as an aid to review. It was first developed for the Fourth International's cadre school in Europe. It was subsequently also used by the Democratic Socialist Party in its cadre school. Along the way, many of the definitions and explanations were modified to take account of students' difficulties or further questions.

It may be asked, however, whether there is any longer any purpose in the study of Marxist economics. Is not Marx's analysis discredited by the collapse of the "communist" states of Europe and China's somewhat slower but no less determined path in the direction of capitalism? Have not Marxist economics been superseded by Keynesianism, or monetarism, or neo-liberalism?

In fact, Marx would have changed little if anything in the pages of *Capital* even if he had somehow been able to know of the fate of "communism" in the late 20th century. The founders of scientific socialism saw their primary function as providing the proletariat with the intellectual tools it needed in order to overthrow capitalism; predicting the course of that struggle in anything but the most general sense was no part of their project, because the outcome of the struggle was not predetermined.

Marx and Engels were well aware that the revolutionary surge may be followed by ebb: they studied carefully the lessons of the 1848 revolution and of the Paris Commune, as well as of countless lesser battles. The Commune — the first workers' government in the world — lasted a mere 70 days before it was crushed by capitalist reaction. The second workers' government, established by the October Revolution, lasted more than 70 years. There will be further revolutions, which will be the stronger for learning from those who have gone before.

We can be certain of more revolutionary outbreaks for the same reason that Marx's political economy is still so relevant. The fundamental "laws of motion" of capital that Marx began investigating a century and a half ago continue to operate in modern capitalism, despite the myriad changes in capitalism's surface features and the rare more substantive developments (the most important of which was the development of imperialism). Indeed, the student who approaches *Capital* for the first time is invariably struck by the insights it provides into modern phenomena; this is itself a testimony to how deeply and accurately Marx's analysis penetrated.

As for alternative schools of economics, most do not rise above what Marx dismissively characterised as "vulgar economics". This is the non-science that concerns itself, not with the explanation of underlying causes, but with systematising the impressions created in the mind of the capitalist by the surface features of the production process. It typically begins with eternal and a-social "factors of production" — or, even worse, with isolated individuals possessing only "needs" — and never gets beyond debating empirical rules for observed rates of wages, profits, interest and rents.

The enduring superficiality of modern non-Marxist economics is most clearly demonstrated by its inability to overcome the "micro-macro" divide: for individual and aggregate behaviour, this would-be science possesses two quite different sets of analysis and explanation, with no way of connecting the two. In Marx's analysis, of course, there is no such divide.

It is worth recalling that Marx has been declared "outdated" for at least a century by economists most of whose names and ideas are now known only to specialists. It is a safe bet that Marx's epochal work will also outlast the more recent fads.

*Allen Myers*
June 1998

# Marxist economics

## A handbook of basic definitions

### 1. Commodities

A commodity is a product of human labour which satisfies, first of all, a need of the human being and which, secondly, is not produced for one's own individual consumption, but rather for the purpose of exchange (selling).

Commodity production is older than capitalist production. In the period of decomposition of feudal society, simple commodity production formed the basis for the birth of capitalist production.

The ingredients of simple commodity production are:

- A social *division of labour* with independent producers who are specialised in a given production;
- The existence of *private ownership of the means of production and of the product of labour*.

There is a difference with capitalist production: simple commodity production is based on the *individual labour* of those who produce the commodities. But the reliance on private ownership leads to the acquisition of wealth by part of the peasants and craftsmen and to the ruin of others. Simple commodity production (petty commodity production) can thus be found at the root of the development of capitalist relations.

In the capitalist system, *commodity production is predominant in a generalised form*. The product of labour, the means of production and labour-power have all become commodities.

Since Marx studied capitalism as generalised commodity production, he gave some indication about the operation of pre-capitalist societies (where petty commodity production exists to a certain degree, for instance) and about post-capitalist societies where commodity production has not yet completely withered away.

## 2. Use-value

The properties which make an object fulfil one or another need of a human being make this object into a *use-value*. Use-value represents the material content of wealth, whatever social form it may take. However, not everything that has a use-value is a commodity. In order for an object to become a commodity, it must be a product of labour *designed to be sold*. Thus in a market economy, it can be said that the use-value contains the exchange value of a commodity.

For example, a cobbler working in the service of a feudal lord will make shoes for him. The cobbler may receive a salary. Nonetheless, the cobbler does not produce commodities. The products of his or her labour are not sold on the market. He/she produces only a use-value (but no value is produced, and no surplus-value).

In order to be able to be exchanged, a product must have a use-value. However, this can be *realised* only as a result of the exchange of a product.

## 3. Value

In a market economy, the exchange value appears *first of all* as a *quantitative relation* in which two distinct use-values are compared (a pair of shoes to a sack of potatoes, for instance). When the pair of shoes is tested on the market for the purpose of exchange against a sack of potatoes, this means that it is *worth* as much as the sack.

However, the use-values of different commodities cannot be directly submitted to a quantitative comparison because they are qualitatively different. *The only common feature* which makes these use-values comparable at the time of exchange is the fact that they are all the *product of labour*. One therefore finds at the root of the equality between a pair of shoes and a sack of potatoes, the *social labour* which was expended in order to produce them. The value is thus an indirect measure of the social labour which is necessary to produce the commodities.

The *exchange value* of a commodity is the *form* of expression of its value.

## 4. Concrete labour and abstract labour

A commodity thus displays a dual character: use-value and value. This dual character is determined by the dual character of the labour that is worked into it.

The types of labour are as different from each other as the use-values. Thus each use-value represents a determined type of labour. Labour, when it is expended in a determined form, represents *concrete labour* (there is thus a correspondence between *concrete labour* and *use-value*: cobbling corresponds to shoes, farming to potatoes).

When an exchange occurs, the comparison between the commodities implies that different forms of concrete labour are "assimilated" and considered equivalent. Therefore the different forms of concrete labour possess a *common feature*. The common denominator for all concrete labour is expressed by a small or large *expenditure of energy*. The labour of those who produce the commodity, taken as an expenditure of the labour-power of people in general (abstracting from its concrete form) is called *abstract labour*. *Abstract labour* determines the *value* of the commodity.

In a society where the private ownership of the means of production prevails, this dual character of labour (all labour is both abstract and concrete) reflects the contradiction between the *private labour* and the *social labour* of the producers. Private property separates individuals (the labour of each producer is their "private business"). The labour of the different producers is not coordinated on the scale of society as a whole. However, the social division of labour fosters the creation of *multiple links* between the distinct, separate producers. The greater the division of labour, the greater the diversity of activities on the part of the different producers, the greater the interdependence that exists between them.

The labour of the "separate", isolated producer is therefore a *social labour*. It constitutes *part of the labour of society as a whole*. Due to the isolation (the fragmentation linked to private property) of the producer, the social character of the labour of the producer remains hidden. It expresses itself only at the time of exchange. It is only in the act of exchange that the labour of a producer is given or denied the "agreement" of society (the market determines whether or not this labour is needed by society).

Abstract labour, which produces the value of the commodity, is a *historical category*. This is the specific form taken by social labour in the market economy. The movement of labour from one branch to the other — a fluctuation that is unprecedented in history — shows concretely that the notion of abstract labour underlies the concrete capitalist reality.

Under feudalism, social labour didn't take the form of abstract labour. The feudal lord deprived the serfs of the surplus product (either in the form of a labour rent or as a rent in kind) in a direct fashion (through the work performed or in products). The social character of labour was expressed in a concrete form. In commodity society (petty commodity production and generalised commodity production) the products are made for the market (and not designed primarily for consumption). The social character of labour is thus expressed in the market through a process which occurs outside the knowledge of the producer. The concrete forms of labour are regulated through the abstract labour which constitutes the value of the commodity.

### 5. Simple labour and complex labour

*Complex or compound — or skilled — labour*. This is labour whose power is developed above the *social average* by other elements of labour which are incorporated in it. Labour which requires social training is a complex labour (compound or skilled labour).

In the same time span, compound labour creates a greater value than simple labour. The value of a commodity produced by complex labour also contains that part of labour which was dedicated to the training of the worker and the improvement of the worker's skills. *Complex labour thus acquires the meaning of multiplied simple labour*. In the case of commodity production based on the private ownership of the means of production, all the different types of complex labour can be expressed as multiples of simple labour. The size of the value of a commodity is then determined by the quantity of simple labour that is socially required for its production.

In order to calculate the quantity of productive labour which is "enclosed" in each commodity, *the length of labour time required* is shown to be the criterion in history itself (and not solely in the heads of Marxists).

The production performed by workers with various skills involves the intervention in the production process of technicians, skilled workers and production engineers. The training required in order to acquire the skills represents an *expenditure of energy* both for the learner and for the teacher. If this expenditure is not *immediately productive*, it is worked into productive labour in one form or another when the productive labour is performed. We thus arrive at the following notions:

*Simple labour:* Marx defines this as "the expenditure of the simple power with which everyone is generally endowed without undertaking any special development of their physical organism" (the job rotation of unskilled workers thus gives us a concrete idea of this "expenditure of the simple power of everyone").

*Complex or compound labour*: Labour in which elements of previously performed labour can be found and which has developed its power *above the social average*. This in the last analysis is nothing more than the *multiple of simple labour*.

### 6. Socially necessary labour

If the value of a commodity is determined by the quantity of labour required for its production, an objection can be made. Does a clumsy worker who needs twice the time required by an able worker to produce the same object, actually produce more value? In order to reply to this objection, it is necessary to bring in the notion of *socially required labour*.

For example, in a society of petty commodity production, when a clumsy worker comes on the market in order to sell (exchange) his or her product, he/she cannot expect to sell it at a higher price than the product made by the able worker.

An *equilibrium* is thus reached in fact between the values of the various commodities. This equilibrium is determined by *the average, normal conditions of labour* as performed by the producers of these commodities.

Hence the value *is not* determined by the individual labour performed, but by a *social average* which Marx calls *socially necessary labour*. (The length of the socially necessary labour time varies according to the *productivity of labour*, which in turn is expressed in the quantity of products created in a given labour time.)

A clumsy or lazy producer working *below the average productivity of labour* will *waste* labour time. This wasted labour time will not be recognised as socially necessary by the market and therefore will not be refunded (the same is true for a factory which operates below the average conditions of productivity).

## 7. Exchange — the form of value — general equivalent — money — the law of value

The value of the commodities created by labour in the production process can express itself only in the comparison with another commodity, through the process of exchange. *Value thus appears in the form of exchange value.*

Let us suppose that a commodity A and a commodity B have been produced. A is exchanged for B. What does this mean?

If A is worth the same as B, this means that B discovers the value of A and A discovers its own value in B; B thus appears as the equivalent in value of A.

If we multiply the number of commodities compared to B, B will be perceived as a general equivalent, as the means used to express the value of other commodities. The general form assumed by value is characterised by the fact that all commodities begin to be exchanged for a single commodity, which plays the role of a *general equivalent*.

In becoming a general equivalent, B has transformed itself into *money*. This money is a mirror of all the other commodities from the point of view of value. The specific value of money can be expressed only in the form of the labour socially necessary for its own production (i.e., precious metals).

It is logical, then, that a state of generalised exchange (generalised commodity production) was required before Marx could unearth the categories of commodity economy. The work of elaboration performed by Marx in the second half of the 19th century is therefore not a chance occurrence.

*Money possesses three main functions*:

- *A measure of value*: The value of the commodity is expressed only indirectly, by assimilation of the commodity to money in the exchange process.
- *Means of circulation*: The exchange of commodities performed by means of money is called commodity circulation.
- *Store of value:* Unlike ordinary commodities, money always retains its value — though that value may change with changing conditions of gold production. (Paper money, not being a product of human labour, can not adequately perform this function of gold money.) As a store of value, money performs several important subsidiary functions:

a. *Hoarding:* When money is withdrawn from circulation and accumulated in the form of money. In pre-capitalist society, this is usually done to ensure future consumption. In capitalism, it is normally done by capitalists for the purpose of purchasing means of production.

b. *Means of payment*: When a purchase is made on credit (deferred payment), or in payment of taxes or land rent.

c. *Universal means of payment*: (universal currency) in the exchange between countries.

Money, in so far as it is a means of appropriation of the labour of others in the framework of a class society, possesses a class nature. (This refers us to the class nature and not the technical nature of debates concerning the monetary policy of a given country.)

Society requires an equilibrium of production and needs, taking into account the availability of reserves (stocks). The *law of value* is an objective mechanism through which — in the framework of a market economy — recognised *social needs* (those which can be expressed through a purchasing power) and *socially necessary labour* are made to correspond, even if the social labour is performed in a private fashion and the private producer is not aware of the specific needs (quantitative and qualitative) which his or her production must satisfy.

The *law of value* regulates not only the exchange of commodities but also — through the price mechanism — the redistribution of social labour and the means of production between the different branches of the economy.

Under the impact of the fluctuations that occur in the relation between supply and demand, the prices of commodities are at variance with their value, which is itself subject to the fluctuations of labour productivity. These discrepancies provide the means for the law of value to come into play. The fluctuations on the market enable the producer (who has no prior knowledge of the conditions) to determine which products are in excess and which products are scarce according to solvent demand. It is only then that the shifts in output take place.

## 8. General formula of capital

One should not confuse capital and capitalism. Capitalism is the introduction of capital into the productive process. Capital began its career in the form of a given amount of money (usury capital, commercial capital, etc.) within the confines of feudal society.

*The switch from manufacture to large, mechanised industry caused the capitalist mode of production to prevail*. Capitalist property in the means of production forms the basis for the relations of production in bourgeois society. According to Marx, "the capitalist mode of production …consists in the fact that the material conditions of production are attributed to the non-workers in the form of capitalist property and land while the mass owns nothing save its personal conditions of production: labour-power" (*Critique of the Gotha Program*).

If all capital begins its career in the form of money, money in itself is not capital. The *exchange of commodities* gave birth to *money*. We will see that money in turn gives birth to *capital*.

● Money is not capital: When two small producers exchange commodities, money comes into play as a means of circulation, but not as capital. Here we are faced with the formula for commodity circulation:

C (Commodity)—M (Money)—C (Commodity)

● However, money becomes capital when it is used with the aim of exploiting the labour of others. Thus the formula for capital is M-C-M. In other words, purchase for resale, with the accumulation of value as the objective.

C-M-C: exchange of a use-value for another use-value (a producer sells a commodity which he/she does not need in order to acquire one for his/her own consumption). The use-value is thus the purpose of this circulation (purpose = qualitative difference in use-values).

M-C-M: the point of departure and the point of arrival of the movement coincide at a qualitative level (the capitalist has money at the beginning and money is what he or she recovers at the end). The movement would make no sense if there were no quantitative change involved (more money at the end than at the beginning). Thus the purpose of the circulation in this case is an increase in value; hence the general formula can be expressed in the following manner: M-C-M' (the M' denotes the increase in the amount recovered).

## 9. Surplus-value and exchange

Many bourgeois economists assert that the surplus is the result of the circulation of commodities.

Some perceive the exchange as an act where both parties make a profit. For example, one sells galoshes which he/she does not need in exchange for a chair which he/she needs; another is only too happy to receive galoshes in exchange for a chair. This way of tackling the problem of exchange is based on the confusion between use-value and value. From the point of view of the use-value, there may be a gain, but, if we assume that the exchange takes place between equivalent values and that the galoshes and the chair were worth the same amount of money on the market, no increase in value takes place in the exchange.

"The attempts to represent the circulation of commodities as a source of surplus-value mask a quid-pro-quo, a confusion between the use-value and the exchange value" (*Capital*, Vol. 1).

If we assume that a commodity which was purchased for $100 is sold for $110, then a surplus-value of $10 will have been made. However, when the seller in turn becomes the purchaser (for instance at the time of stock renewal) what was previously gained will be lost if the subsequent seller also has the "privilege" of selling at 10% above value.

In order for the sellers to permanently retain their ability to sell above the value, it would be necessary to imagine a class composed exclusively of sellers dealing with another class composed exclusively of buyers. But in that case, where would the money come from to enable the buyers to perform their function? We would then need to assume that the sellers give money to the buyers so that they may purchase the products put on sale. But then the profit made in the sale would be lost.

If we examine society as a whole, it is clear that the losses of the buyers and those of the sellers will ultimately balance out. Therefore, if the commodities are not exchanged at their value, *this may alter the distribution of the value but not its mass*.

Hence we can make the following proposition: The owner of money who becomes a capitalist must find on the market a *commodity whose consumption will create value that is superior to its own value*. The owner of money must therefore find a commodity *whose use-value will itself possess the ability to produce value*. This commodity is called *labour-power*.

## 10. Labour-power and its value

Labour-power is best described as the combined faculties which an individual can put to work when he or she produces a material good. Whatever the form of society, it is an indispensable element of production.

But in capitalist society, labour-power becomes a commodity. We can say that capitalism is *commodity production taken to its ultimate conclusion*, in a situation where labour-power itself becomes a commodity. This means that *capitalist production* is based on wage labour (compulsory sale of *labour-power*) and that the act of hiring a worker is nothing other than *a buying and selling operation of a commodity called labour-power*: the workers sell their labour-power and the capitalist purchases it.

By hiring a worker, the capitalist *gains control over labour-power to be used in the productive process where the increase in capital occurs*.

Labour power, like any other commodity, is sold at a given price — hence *the question of the value of this commodity is posed*.

In order to *preserve the ability to work*, the worker must satisfy his or her vital needs. This implies that individuals *reconstitute* their ability to work. This reconstitution is necessary not only for the worker, but given the need of the capitalists to secure a permanent supply of labour-power, it also implies the care of the family (*reproduction* of the labour-power) along with the expenditures required for the acquisition of skills by the children etc. The value of the commodity labour-power is equal to the *value of the means of subsistence required, in a given social and historical context*, to provide for the workers and their families.

The capitalist who initiates a business will purchase what is required for production: buildings, machines, equipment, raw materials, fuel; and hire labour. The process of production then begins. When the commodity is ready, it is sold by the capitalist.

The value of the commodity produced contains: the value of the expanded means of production (processed raw materials, fuel, estimated value of the buildings, the machine tools — depreciation) as well as *the newly created value which is the result of the labour of the workers of the factory*.

## 11. But what is this newly created value?

One must begin with the fact that the capitalist system presupposes a *relatively high level of labour productivity* (i.e., the Industrial Revolution). This is required in order for the worker to need only a part of the labour of one day to create a value equal to that of his or her labour-power.

If one hour of simple average labour creates a value equal to $10, and if the daily value of the labour-power is equal to $60, the workers must work for six hours in order to compensate for the daily value of the labour-power.

But the capitalist *controls* the labour-power of the worker *for twelve hours and not six*. During these twelve hours, the worker creates a value equal to twelve hours, whereas the worker's labour-power is worth only $60.

Thus we see that the *specific use-value of the labour-power for the purchaser, the capitalist, is precisely this property, which enables it to be a source of value greater than that which it possesses in itself*.

## 12. The production of surplus-value

The necessary precondition for capitalist exploitation is that the *value of labour-power and the value created during the process of its consumption* (when it is under the control of the capitalist) *are of a different size. It is required that there be a difference between the two values*.

If we go back to the previous example, we can prove that the capitalist recovers the capital he or she put forward ($60) with an increase or an excess of $60 (the value created by the worker amounting to $120).

*Surplus value is thus the difference between the value of labour-power and the value created by the worker. Surplus value is therefore the fruit of the unpaid labour of the worker*.

On the basis of this, we can divide the day's work in the factory into two parts; the *necessary labour time* and the *surplus labour time*. Necessary labour is the time during which the workers reproduce the value of their labour-power; surplus labour is the time during which the workers create the surplus-value.

*In the capitalist system, we can thus characterise the labour of the worker as being a process of consumption by the capitalist of the commodity labour-power, a process during which the capitalist extorts surplus-value from the worker*.

The two characteristics of labour in the capitalist system are:

- The worker works *under the control* of the capitalist, to whom belongs the labour of the worker.
- The capitalist owns not only the labour of the workers, but also the product of their labour.

The immediate purpose of capitalist production is the production of surplus-value;

therefore, the only *productive labour* in capitalist society is that which produces surplus-value.

The difference with feudal and slave societies is that in capitalist society exploitation *takes on a disguise* (the extraction of the surplus-value, the reality of the unpaid labour time are not immediately perceivable, cannot be grasped outright; they take on the appearance of a normal customary exchange between two owners of commodities; it is on this appearance that the illusion of the labour contract drawn up between two "partners of equal standing" is based).

Lastly, the production of surplus-value, as a *fundamental economic law of the capitalist system*, is expressed in:

- The growing production of surplus-value;
- The appropriation of the above by the capitalists on the basis of the private ownership of the means of production together with the intensification of production and its expanding scale. Marx stated: "To produce surplus-value, such is the absolute law of this mode of production" (*Capital*, Vol. 3).

Capital did not "invent" surplus labour. Surplus labour existed in the feudal mode of production as well as in slave society. But, unlike the feudal lords, who used the major part of the products of the surplus labour performed by the serfs to satisfy their personal needs and whims, capitalists, besides personal consumption, *dedicate a large proportion of their money* (surplus labour converted into money) *to build up additional capital destined to produce new surplus-value* (cf. competition). This is why Marx asserted that capital was hungry for surplus labour. It should be understood that this race for surplus-value was the revolutionary element in the capitalist mode of production and that it determined the whole development of the productive forces (i.e., the revolutionary aspect of the emerging bourgeoisie — see the *Communist Manifesto*).

*The relation between necessary labour time and supplementary labour time (surplus labour) represents the rate of exploitation, or the rate of surplus-value*. It can be formulated as follows: the relation between the surplus-value produced by variable capital and the variable capital itself.

### 13. Capital as a social relation

The bourgeois economist defines capital as any instrument of work, any means of production, like the polished stone of the early human beings. The purpose of this is to mask the exploitation which lies in the reality of capital, and to present capital as an eternal and unavoidable condition of society throughout history.

The means of production did not become capital until a certain stage of historical development was reached, *when the means of production are under private ownership and are used as a means of exploitation of wage labour*. It is from that moment that we can say that *capital is not a thing, but a social relation*.

Capital is a value which, through the exploitation of wage earners, creates a surplus-value. Marx said: “Capital is dead labour which in the same fashion as the vampire, can come to life only by sucking the live labour, and its life is all the more animated when its supply is increased.” (*Capital*, Vol. 1).

Thus we say that capital embodies a relation of production between the class of capitalists and the class of workers, the essence of which is that the capitalists, as owners of the means of production, exploit the wage earners, who create a surplus that the capitalists appropriate.

## 14. Constant capital and variable capital

The different components of capital do not all play the same role in the production of surplus-value. The capitalist spends a certain portion of his or her capital on the purchase of machines, buildings, raw materials, energy, tooling, etc. *The value of this part of capital is transferred* to the newly produced commodity as a ratio of the consumption of the means of production (raw materials) or of the wear in the course of production (machines). *We call this part of capital, whose size remains the same throughout the productive process* (whose value is constant because it is worked into the value of the commodities which are finally produced and is maintained by the action of the labour-power), *constant capital*. A subdivision must be introduced in the general category of constant capital: *fixed capital* is that part of constant capital which is used in the purchase of buildings and equipment and whose value is therefore recovered by the capitalist only gradually, through the sale of many commodities; *circulating constant capital* is the raw materials or semi-finished products whose entire value is transferred to a commodity and recovered by the capitalist as soon as that commodity is sold.

But the capitalist dedicates a part of his or her capital to the purchase of labour-power, to the hiring of workers. This part of capital is called *variable capital* because its value increases with the *surplus-value* extracted from the labour-power by the owner of capital. Indeed, in exchange for this part of capital spent, the owner of the means of production receives a new value created by the workers in his or her factory. This new value *is greater* than the value of the labour-power purchased by the capitalist.

Constant capital is usually referred to as $c$ and variable capital as $v$.

The exploitation of wage earners by the capitalists constitutes the *source of the surplus-value*.

## 15. ABSOLUTE SURPLUS-VALUE — RELATIVE SURPLUS-VALUE — EXTRA SURPLUS-VALUE

The rate of surplus-value (the percentage ratio of surplus-value to variable capital) shows the proportion in which labour performed by the workers is divided into *necessary labour* and *surplus labour*. Or, formulated differently, it shows which part of the day's labour is performed by workers in order to replace the value of their labour-power, and which part is performed free, for the capitalist.

The rate of surplus-value is formulated as follows:

$$s' = s/v = (\$60/\$60) \times 100 = 100\%$$

In this case the labour of the worker is equally divided into two parts, one is the necessary labour and the other is surplus labour.

*The mass of surplus-value*, through the development of capitalism (in the 18th, 19th and 20th centuries), increased proportionately to the increase in the number of wage workers exploited by capital. *There exist two means of increasing the degree of exploitation* of labour by capital, or of increasing the part of the surplus labour which is extorted from the worker by the capitalist.

The first means consists in *lengthening the working day*. The necessary labour time remains stable and the time when surplus labour is performed increases.

Before lengthening the working day, we had the following subdivision of its time:

- A 12-hour day;
- Necessary labour time: 6 hours;
- Surplus labour time: 6 hours.

After the lengthening of the working day we find the following division:

- A 14-hour day;
- 6 hours necessary labour;
- 8 hours surplus labour.

Thus we see that there is an *absolute lengthening* of the working day. On the other hand, the time required for necessary labour remains unchanged.

The surplus-value produced through the increase in the length of the working day is called *absolute surplus-value*.

The second means consists in *reducing the necessary labour time* in order to increase the surplus-value extracted without increasing the overall length of the working day.

This shortening of the labour time necessary for the workers to reproduce the equivalent of their wages is directly linked to the increase in labour productivity, in agriculture and in other branches producing consumer goods for the workers.

Increased productivity in these branches means a lowering of the value of the commodities required for the reproduction of labour-power.

If we return to the above examples of working days, we find the following:

- A 12-hour day;
- 4 hours necessary labour;
- 8 hours surplus labour.

Even though these two means both have the function of reinforcing the exploitation of labour by capital, they also have different functions in the various phases of the historical development of capitalism. When technical progress (development of the productive forces) is slow, absolute surplus-value plays a very important role. When labour productivity (expression of the growth of the productive forces) increases faster, then increased exploitation of the workers is achieved by the increase in relative surplus-value.

*Intensification of the labour of the workers* is just as important for a capitalist as the lengthening of the working day. The lengthening of the working day from 10 to 11 hours or the increase in the labour intensity by 1/10 produces the same results for the capitalist.

When it is contrasted to capitalist policy, *the historical struggle for the reduction of working time and for the control over the use of labour-power by the bosses takes on its full meaning*.

When a capitalist enterprise introduces improved machinery and methods of production, that places it above the average of the branch of industry as a whole; it achieves a greater productivity than in the industry as a whole. Hence the value of each commodity produced in this factory declines below its social value. However, the price is determined by the social value, which means that the capitalist will achieve a *rate of surplus-value that is greater than the average rate*.

The extra surplus-value is the excess which the capitalists receive beyond the ordinary rate by lowering the unit value of the commodities produced in their factories.

In fact, what occurs is that the workers of this factory need less time — because of the improved productivity — to compensate for the value of their own labour-power. The necessary labour time is thus shortened and the surplus labour time is concurrently lengthened. This is a temporary phenomenon because after a certain time, the other factories in the same industrial branch introduce the same "advanced processes". Indeed, the generalisation of technical progress in any given branch decreases the time socially required for the production of a commodity, thus causing its value to decline. In the end, the advanced capitalist no longer rakes in extra surplus-value.

This gives us a guide for the appraisal of the cost of the development of technical progress in the capitalist system.

## 16. The wage

It is necessary to distinguish between three elements when discussing the wage:

● *The value of labour-power*, which is determined by the commodities required for the reproduction of labour-power, *evolves under the constraint of two contradictory tendencies*. One is linked to the increase in the productivity of labour, which lowers the value of the commodities required for the reproduction of labour-power (less social labour time is required for its reproduction) and *thus lowers the value of labour-power* without, however, lowering the real wage. The other is the tendency of workers' organisations (trade unions, parties, etc.) to gain strength, thus allowing for the introduction of social needs into the value of labour-power and therefore to an *increase of its value*.

● *The price of labour-power*, which fluctuates around its value and is determined by the relations between the supply of and demand for labour-power on the market. In a period of expansion, as, for instance, the whole period stretching from the early 1950s to the early 1970s in Australia, demand exceeds supply, so the price of labour-power tends to be above its value.

● *The real wage*, which represents the mass of purchasable goods available for the worker.

The forms taken by wages evolve: piece wage, time wage, combinations of both, etc. The form assumed by wages is linked to capitalist methods of exploitation.

## 17. Production and reproduction

In order to live and develop, society must produce material goods. It cannot stop their production, just as it is unable to stop their consumption. Whatever the structure of the social relations, production must be constantly renewed. This permanent renewal, this uninterrupted repetition of the productive process, is called *reproduction*.

"Considered, not in the isolated aspect, but in the process of its ceaseless renewal, any process of social production is thus — at the same time — a process of reproduction" (*Capital*, Vol. 2).

The conditions of production are those of reproduction. If production assumes a capitalist form, the reproduction will assume the same form. The *process of reproduction* thus consists of:

- The fact that society produces ever more renewed quantities of products to replace (and more) the products consumed;
- The fact that in society the *corresponding relations of production* are constantly being renewed.

There are two major types of reproduction: simple reproduction and expanded reproduction.

*Simple reproduction*: this is the repetition of the productive process in its *previous proportions* (the newly produced goods simply compensate for the consumption of *means of production* and *individual consumer items*).

*Expanded reproduction*: repetition of the productive process on an expanded scale (society does not limit itself to the replacement of the material goods consumed but produces *additional* means of production and consumer goods beyond the scope of the simple replacement).

## 18. SIMPLE CAPITALIST REPRODUCTION

In the case of simple capitalist reproduction, the productive process is renewed *without alterations in volume: surplus-value* is therefore totally used by the capitalists for their own consumption.

Let us examine some of the features of the capitalist system through the prism of simple reproduction.

- *In the process of reproduction, both the products of labour and capitalist relations of exploitation are renewed.*

On the one hand, wealth is constantly being created in the course of production. This wealth belongs to the capitalist, who makes use of it to appropriate surplus-value. At the end of each process, the capitalists are again in possession of a capital which enables them to acquire wealth through the exploitation of the workers.

*On the other hand*, at the end of the productive process, the worker remains a proletarian, a non-owner compelled to sell his or her labour-power once again and ever again to the capitalist.

*The reproduction of wage-based labour-power is the necessary condition for the reproduction of capital.*

- An objection is made sometimes on the basis of the study of an isolated productive p*rocess*. In such a case, it appears that the capitalists, in order to purchase labour-power, draw on their own funds for the amount of money required to give the worker an advance (on an anticipated earning). This is the theory of the wages fund. This theory is apparently motivated by the following fact: at the time of the payment of the wages, the capitalist cannot have had time to realise the commodity produced by the worker.

In order to shed some light on the nature of this transaction, it is necessary to *avoid considering it as an isolated occurrence*, and *instead to analyse it as an element of reproduction*, *a relation that is endlessly repeated*.

While the workers create through their labour, in a given period of time, a new value which contains surplus-value, the product manufactured by the workers in the previous period is being tested on the market, realised and converted into money. Therefore, capitalists do not pay the wages out of their own pocket, but out of the value created by the labour of the workers during the previous period of production.

Furthermore, contrary to the usual commodity, labour-power is paid for by the capitalist only after the labour is consumed. Thus the capitalist does not give an advance to the proletarian, but rather the *proletarian gives an advance to the capitalist.*

● *The capitalist constantly transfers money to the workers* (in the form of wages) in order to enable them to purchase their means of subsistence (that is to say, a part of the products created by the very labour of the workers — which the capitalists have appropriated). The workers return this money to the capitalists in the act of purchasing their means of subsistence — produced by the exploited class.

● The analysis of capitalist relations in the course of reproduction does indeed bring to light the true source of wages, but it *also exposes the source of all capital*.

Therefore, whatever the initial source of capital may be (i.e., its historical formation through theft and pillage) it becomes — in the very process of simple reproduction, after a given amount of time — *value created by the labour of the workers and appropriated by the capitalists at no cost to themselves*. Therein lies the proof of the absurd nature of the assertions made by bourgeois economists who would like us to believe that capital is wealth earned by the labour of the entrepreneur.

Of course, the realisation of the social product (the mass of material goods produced in society in a given period of time) requires certain *conditions* in the framework of simple capitalist reproduction, where the surplus-value is destined to be consumed by the capitalist.

These conditions are the following:

● The total mass of the commodities produced in Department I (production of means of production) by the companies that produce the means of production must be equal *in value* to the mass of the means of production consumed in the space of one year (a determined time) by the companies of Departments I & II (production of consumer goods).

● The total mass of commodities produced in a given period of time in Department II by the companies producing consumer goods must be equal in *value* to the sum-total of the incomes of the workers and of the capitalists in both sectors.

This correspondence is far from being guaranteed. Every production does not necessarily find an outlet. This uncovers *one aspect* of the possibility of a crisis occurring.

## 19. Expanded capitalist reproduction — capital accumulation

In the case of expanded reproduction, *one part of the surplus-value is channelled by the capitalist toward an increase of production* in the form of the purchase of additional means of production and/or the hiring of extra workers. This means that part of the surplus-value is added to the previous capital; it is *accumulated*.

*The accumulation of capital* is the addition of part of the *surplus-value* to capital *or its conversion into capital*. Surplus-value is thus the source of capital accumulation. It is therefore through the exploitation of the working class that capital grows and that, at the same time, capitalist relations of production are reproduced on an expanded scale (increase of the mass of wage earners).

Under capitalism, *production develops only if capital increases, if it accumulates*. This means that under capitalism more raw material, more machines and more labour-power *can translate only into more capital* (additional capital in the form of constant and variable capital). Thus, under capitalist rule, a systematic pressure is exerted in order to secure an *accumulation of capital* (law of capital accumulation).

As Marx stated, capital can exist only if more capital is accumulated. This expression is verified in concrete reality through *competition*. Capital occurs in the form of *individual capitals* competing with one another, since we are in the framework of a society where private property prevails.

Capitalist production is market-oriented production. In order to win in this competition, every capitalist company is compelled to lower its production costs. In order to achieve this, large-scale production is required, as are the use of more modern machinery and means of production (rationalisation). *All of this requires more capital. Hence the pressure towards an increase in capital accumulation*. Since surplus-value is the sole source of capital, the growing pressure toward capital accumulation implies that a pressure is exerted for the ceaseless increase of the *mass of surplus-value*.

## 20. The organic composition of capital, the concentration and centralisation of capital

In the process of capital accumulation, the general mass of capital increases, and its *different components* undergo uneven alterations. There occurs a change *in the structure of capital*.

Technical improvement is linked to capital accumulation. The introduction of every new technique implies that a new *physical relation* is established between a given mass of raw materials, a set of machines and a certain number of workers. There is therefore a modification of the *technical composition of capital*.

On the other hand, the *organic composition* of capital (which is related to this technical composition) *expresses the relation — in terms of value — between variable capital* (in the sphere of production) *and constant capital* (not fixed capital alone).

*The growth of the organic composition of capital* can be measured empirically at the level of an industrial branch through the fact that the wages appear there as a declining part of the total production cost over the long term. This is a key argument against those who assert that technical progress does not imply a modification of the relation between variable capital and constant capital — in terms of value. This would imply that there is no growth in the organic composition of capital (with its inherent consequences in terms of the decline of the rate of profit). Besides, we can ask a question to those who deny the existence of this tendency. How do they explain the prevailing pressure in all the industrial branches toward semi- or full automation?

In the course of capitalist reproduction, there occurs a *development both of the centralisation and of the concentration of capital*. The fusion of different capitals under a single decision-making body, hence the fusion of several capitals into a single, more powerful one, is called *centralisation*.

We call *concentration of capital*, the increase in value of capital in every important industrial firm as a result of accumulation (accumulation of created and appropriated surplus-value) and of competition (elimination of the smaller, weaker firms).

The concentration and the centralisation of capital gather a tremendous amount of wealth into the hands of a restricted number of persons. Capital growth opens broad perspectives of capital centralisation. The large companies develop a tremendous competitive edge over the smaller ones, in terms of level of productivity, scale savings and market penetration.

The concentration and centralisation of capital imply that private property tends to *polarise society socially and politically* between those who own ("the minority of owners who command labour and machines") and those who do not.

The concentration and centralisation of capital thus imply the concentration of *economic power* with all of the consequences this has on the social and political planes.

## 21. Industrial reserve army

Marx indicated in *Capital* (Vol. 1, Chapter 23) that *if the organic composition of capital remains unchanged, the progress of capital accumulation* favours the workers once a certain level is reached because *full employment* tends to occur (with its concurrent effect on the price of labour-power).

However, the development of capitalist production implies (see capital accumulation and organic composition) that there is a permanent alteration of the organic composition of capital.

Capitalist development, or capitalist expansion, is the *substitution* of dead labour for living labour (workers are replaced by machines). On the basis of this general assumption, Marx introduced the notion of the *industrial reserve army*, in other words, the constant creation — through the process of capital accumulation — of a mass of jobless producers. This mass cannot but exert a downward pressure on wages. But this explanation in Volume 1 of *Capital* refers to the operation of *capital in general*, in other words in a capitalist world removed from the concrete conditions of capitalist expansion, competition etc.

*The realisation of this "law" of the industrial reserve army depends fundamentally on two factors*:

- The relation between the rhythm of expansion of industry and the rhythm of growth of the proletarianised layers.
- The relation between intermittent unemployment (short duration, as was the case in Australia before the early 1970s, and long-term unemployment as in Australia since 1975) and the masses of workers holding a job.

We can observe fluctuations at two levels which are different for these two factors.

The first is *in the long term*: rhythm of proletarianisation of the population related to the rhythm of industrial expansion.

The second, *in the short term*, is the fluctuation in the framework of an economic *cycle*: in the case of a crisis of overproduction, the number of workers seeking a job is much greater than the number of available positions; in a period of boom, the demand for workers tends to overtake the number of job seekers (particularly in certain categories), hence the upward pressure on wages.

## 22. Relative pauperisation

The existence of unemployment makes it easier for the bosses to exert a *downward pressure* on wages (real wages). But this tendency comes into conflict with another. Technological growth and technical progress develop a series of new needs among the workers, while there is, in turn, an increase in the number of commodities whose price *is included as part of the average wage* (the socially vital minimum). The existence of trade unions and the resistance of workers stimulate the upward trend in the number of commodities included in the average wage. It is therefore the *interaction of these two contradictory forces* which determines the general level of wages (thus we can see how wages are closely linked to capital accumulation).

If we speak of relative pauperisation, this means that the workers may well benefit from the ongoing productivity increases which are characteristic of capitalist industry, but in a far smaller measure than the capitalists themselves.

## 23. Fundamental contradiction of the capitalist mode of production

Capitalism, in the course of its development, tightly binds the labour of an ever growing number of workers. The social division of labour expands. Branches of industry which were hitherto nearly independent from each other transform themselves into a series of intricate and interdependent productions. The economic relations bind companies, regions, whole countries. There occurs a *capitalist socialisation of labour, a capitalist socialisation of production*.

But this socialisation progresses for the benefit of a small number of capitalists whose main concern is the increase in their profits (which is the condition for their survival). Consequently, the capitalist system is saddled with an inherent, deep contradiction: *production takes on a social character, whereas the form of appropriation (ownership) of the means production is incompatible with the social character of the productive process*.

The contradiction between the social character of production and the private, capitalist, form of appropriation of the results of production is the fundamental contradiction of the capitalist mode of production. This contradiction becomes more acute as the development of capitalism goes on (growing objective socialisation of labour accompanies growing centralisation and concentration of capital).

## 24. THE CYCLE OF CAPITAL

The capitalist mode of production is characterised by the *developed stage of commodity circulation*, in other words, exchange for money. Capitalist production is closely linked to circulation.

● All capital begins its career in the form of a determined amount of money. At this stage, *it is money capital*. With this money, the capitalist purchases commodities of a specific nature, namely, means of production and labour-power.

This initial act of circulation can be expressed as follows:

$$\text{M—C} \begin{cases} \text{LP} \\ \\ \text{MP} \end{cases}$$

(M = money; C = commodity; LP = labour-power; MP = means of production.)

This change in the form assumed by capital enables its owner to acquire everything required for production. This capital is identical in size with the initial capital but it has become *productive capital.*

This is the first stage in the movement of capital: its conversion from money capital into productive capital.

● Then there occurs a productive process involving a productive consumption of the commodities purchased by the capitalist. This simply means that the workers expend their labour, the raw material is transformed, fuel is burned and machines wear out.

Again there occurs a change in the form of capital. The capital is worked into a mass of commodities: *it takes the form of commodity capital*. These are no longer the commodities which were purchased by the capitalist to begin production. Also, the value of the mass of commodities is greater than the initial value of the capital because it contains the surplus-value created by the workers.

This stage of the movement of capital can be expressed as follows:

$$C \begin{cases} LP \\ \\ MP \end{cases} \ldots P \ldots C'$$

P represents production, the dots after the symbols indicating that the process of circulation has been interrupted and that a process of production is taking place;

C' represents capital in the form of commodities, a capital whose value has been increased by the surplus labour of the workers.

The second stage of the movement of capital thus consists in the *transformation of productive capital into commodity capital*.

● But the movement of capital continues. In exchange for the commodities sold on the market (the commodities must of course be realised) the capitalist receives a certain mass of money.

This phase of circulation can be represented as follows:

C'—M'

The form of capital changes a *third time*: it once again assumes the form of *money capital*. Once this has occurred, the capitalist is in control of a greater mass of money than at the beginning. The purpose of capitalist production, which consists in extracting surplus-value, has been fulfilled.

Capital thus has a specific function in each phase of movement:

● The conversion of *money capital* into an element of productive capital secures the *junction of the means of production which belong to the capitalist with the labour-power of the wage-earning workers* (condition for the existence of the productive process).

● The function of *productive capital* is to create — through the labour of the workers — a mass of commodities, a new value and, therefore, *surplus-value*.

● The function of *commodity capital* consists, through the sale of commodities, first of all in returning to the capitalist, in the form of money, the capital which was invested in order to initiate production; second, *in realising, in the form of money, the surplus-value* created in the process of production.

What we call a *cycle of capital* is the successive transformation of capital from one form to the next. Out of these three stages, the first and the last take place in the sphere of *circulation*, that is to say, the transformation of commodities into money and the subsequent conversion of money into commodities. This is the condition required in order to ensure the constant renewal of the process.

The general formula for the cycle of capital can be expressed in the following manner:

$$M\text{—}C \left\{ \begin{array}{l} LP \\ \\ MP \end{array} \right. \ldots.\ P \ldots.\ C'\text{—}M'$$

Surplus value (the essential goal) is produced only in the second stage; in the *first and in the third stages* surplus-value is not produced and neither is value; *the only thing that takes place is a succession of the various forms of capital*.

Every capital exists simultaneously in these three forms. While one of its parts represents a money capital which is converted into productive capital, the other part represents a reproduction capital which is converted into money capital. *Each of these parts successively assumes and later sheds each one of these three forms*. This is the case not only for every capital taken alone, but also for the totality of capital, in other words, for *social capital*. Therefore, one cannot conceive of capital except in the form of *capital in motion* and not idle capital.

## 25. Capital turnover

The endless repetition of this cycle is called the *turnover* of capital.

*Turnover time*: This expresses the total of the time of production and the time of circulation.

*Time of production*: This is the time during which capital evolves in the sphere of production.

*Time of circulation*: This is the time during which capital evolves from the form of money to the productive form, and from the form of commodity to the form of money.

## 26. Fixed capital and circulating capital

The different *parts of productive capital* do not circulate in an identical fashion. The different ways in which the parts of productive capital circulate depend on the different ways in which each of these parts transmits its value to the product. From this point of view, capital is divided into *circulating capital and fixed capital*.

- *Fixed capital* is the part of capital which is spent for the construction of buildings and equipment, the purchase of the machines and the tooling. In other words, it is the part of productive capital which operates entirely in the productive process and which transfers its value to the product, *not all at once but bit by bit over a series of production runs*.

The constituent elements of fixed capital are in service for years but they undergo a *dual form of wear*:

*Material wear*: the wear of machines, equipment etc. which makes them unusable after a certain time;

*Moral wear*: a machine which has been in use for five years can still be useful but, if during that period of time a new, more productive, cheaper machine is built and launched on the market, the old machine becomes obsolete; it has undergone moral wear.

This is why the capitalist is under pressure to use his or her machines and tooling in the shortest possible period of time. This also implies the tendency to lengthen the working day, intensify the work process and introduce continuous operation of the factory on a shift basis.

● *Circulating capital* is the part of capital which is spent for the purchase of labour-power, raw material, fuel and the other materials which are not included in the composition of fixed capital.

This is the part of productive capital whose value is totally recovered by the capitalist during a single production run in the form of money when the commodities are tested on the market and realised.

The value of the raw material, fuel etc., is fully transferred to the commodity during a single production run, whereas the expenses allocated to purchase labour-power are recovered by the capitalist with a bonus, surplus-value.

During the time that fixed capital *operates a single rotation*, *circulating capital effects several rotations*. The sale of the commodity provides the capitalist with a certain amount of money which includes:

◆ The value of the part of fixed capital which has been transferred to the commodity during the production process;

◆ The value of the circulating capital;

◆ The surplus-value.

In order to continue production, the capitalist reinvests the sum of money acquired and which corresponds to the circulating capital in order to hire workers, purchase raw materials etc. The capitalist uses the sum which corresponds to the part of the value of fixed capital which was transferred to the commodity in order to compensate for the wear of the machines, the degradation of the buildings, in other words for *amortisation*.

Marxists make a distinction between the division into fixed and circulating capital and the division into constant and variable capital.

Constant and variable capital are distinguished from one another according to the role they play in the *process of exploitation* of the workers by the capitalists.

*Fixed and circulating capital* are differentiated *according to the character of the rotation*. We can represent this by the following schema:

| *Division according to role in the process of exploitation* | | *Division according to character of the rotation* |
|---|---|---|
| *constant capital* | buildings, utilities, tooling and machines | *fixed capital* |
| | raw materials, fuel, and auxiliary equipment | *circulating capital* |
| *variable capital* | wages | |

For the bourgeois, there exists only the division into fixed capital and circulating capital, thus avoiding the question of the role of labour-power in the production of surplus-value. Furthermore, *this division masks the essential distinction between the buying of labour-power and the expenditure in terms of raw materials, fuel, etc*.

## 27. Annual rate of surplus-value and methods for the acceleration of capital turnover

On the basis of a given amount of variable capital, the *speed* of the capital rotation has an influence on the *volume* of surplus-value which the capitalist will extort from the workers over a period of one year.

For example, take two capitals of $25,000, each in variable capital; The rate of the surplus-value is 100%. One of these capitals performs *one* rotation per year and the other performs *two* rotations. This simply means that the owner of the second capital — with the same mass of money — can hire and exploit twice as many workers in one year as the owner of the first capital. What will be the year end result for the two capitalists?

The first will have $25,000 of surplus-value at the end of one year, and the other will have $50,000.

*The annual rate of surplus-value* is the ratio of the surplus-value produced in one year to the variable capital engaged. Hence:

25000/25000 = 100% for the first capitalist;

50000/25000 = 200% for the second capitalist.

This shows us that the capitalists can only profit from an *acceleration of the capital turnover*, since this rotation enables them to e*xtract the same amount of surplus-value with a smaller capital outlay, or to acquire a larger amount of surplus-value with the same amount of capital*.

For the capitalist, since the turnover time includes the production time as well as the circulation time, it is necessary to reduce the different components of the turnover.

*The production time* is shortened by the development of the productive forces and technical progress, the organisation of production (mass production, assembly lines etc.) and means to suppress the interruption of production.

*Capital turnover* is accelerated through an extension of the working day and the intensification of the labour process.

For example, if for a 10-hour working day, the period of work is 24 days, with a 12-hour working day, the period of work will be brought down to 20 days, which represents a proportional increase in the rotation of capital.

The same result is obtained with the intensification of labour. The worker will spend as much energy in 60 minutes as was previously spent in 73 minutes.

In order to accelerate the turnover, the capitalists also try to reduce the circulating time of capital. This reduction is made possible through the development of the means of transportation, the postal services, the organisation of trade etc. Working against this reduction we find the anarchic organisation of production, inter-capitalist competition and the difficulty of finding new outlets for the production.

With circulating capital, the surplus-value created during a given period is introduced into circulation. Hence, *the shorter the turnover time*, the faster the transformation into money of the surplus-value produced by the workers and the sooner it can be used to *expand production*.

## 28. Capitalist production costs and profit

We will examine here the reasons why *surplus-value takes the form of capitalist profit.*

The value of the commodities produced is subdivided into three elements:

- The value of constant capital (part of the value of the machines, of the buildings, the raw material, fuel etc.).
- The value of the variable capital.
- The value of the surplus-value.

The *size of the value of a commodity* is determined by the quantity of socially necessary labour needed for its production. The capitalists do not spend their personal labour in the production of commodities, *they spend their capital*.

The capitalist version of the production cost of a commodity is: the expenditure in constant capital added to the variable capital: c + v.

The *capitalist measures the cost of a commodity in terms of capital expenditure*.

For society, the cost of a commodity is measured in terms of labour expenditure.

Hence the *capitalist production cost* of a commodity is *smaller than* its real value *and the real production cost* (c + v + s).

The difference between the *real cost of production* and the *capitalist cost of production* is equal to the surplus-value (s) which is appropriated by the capitalist. To determine the profitability of the industry, the capitalist compares this surplus to the total capital invested in production.

The *surplus-value* brought into the totality of capital takes the *form of profit*. Since the surplus-value is compared, not to the variable capital alone, but to the totality of capital, any difference between constant capital and variable capital is eliminated; *this is where the illusion that profit is the fruit of capital finds its root*.

In reality, the source of profit is the surplus-value, which is created exclusively through the labour of the workers, by the labour-power whose value is embodied in variable capital.

## 29. Rate of profit

The rate of profit is the relation — expressed in percentage — between the mass of the surplus-value and the totality of the constant and variable capital engaged in the production of surplus-value. For the capitalist it expresses the degree of profitability of the industry.

For example, a capital of $200,000 and a yearly profit of $40,000. The rate of profit is:

$$(40{,}000/200{,}000) \times 100 = 20\%$$

Since the total amount of capital engaged is greater than the variable capital, the rate of profit is lower than the rate of the surplus-value, thus: $s/(c + v)$ is lower than $s/v$.

Let us suppose that the capital breakdown is $160,000 of constant capital and $40,000 of variable capital. The rate of surplus-value is:

$$(40{,}000/40{,}000) \times 100 = 100\%$$

The rate of profit is 20% or 1/5 of the rate of surplus-value.

*The rate of profit depends first of all on the rate of surplus-value*. The greater the rate of surplus-value, the higher the rate of profit, all other things remaining equal. All the factors which increase the rate of surplus-value, in other words the degree of exploitation of the working class, also increases the rate of profit.

*The rate of profit depends on the organic composition of capital*. The lower the organic composition of capital — in other words, the higher the percentage share of its variable component — the higher the rate of profit, while the rate of surplus-value remains the same. Conversely, the higher the organic composition, the lower the rate of profit. Finally, the faster the rotation of capital, the higher the annual rate of profit and vice-versa.

## 30. Formation of the average rate of profit and transformation of the value of the commodities into a production price

In the capitalist regime, the distribution of capital between the different branches of production is effected through competition. We must distinguish two types of competition: a competition between industrial branches and a competition within branches.

- *Competition within branches*.

This competition exists between the companies of a single industrial branch in the form of a struggle for the conquest of the best outlets for commodities in the search for additional profits. The companies are differentiated by their size, the level of technological equipment, the differences in the organisation of production.

Hence the individual value (the actual expenditure of labour) of the commodities produced by the different companies is not identical, but the competition between the companies operating inside a single industrial branch leads to a situation where the prices of commodities are not determined by their individual value but by their social value. (See point 6.)

However, the social value of the commodities depends on the average conditions of production in a given branch. Since the price of commodities is determined by their social value, the companies which take in additional profit, *surplus profit* (which is the form of the extra surplus-value, see point 15), are those whose industrial technique and labour productivity are higher than the social average. In this way, due to the competition within industrial branches, there occurs — within the framework of normal capitalism — a differentiation in the rates of profit of the different firms in a given industrial branch. The competition within a branch will lead to the elimination of the small and medium-sized companies by the large ones.

In order to avoid being eliminated, the capitalist who owns a backward company will attempt to bring in technical improvements. This will lead to an increase in the organic composition of capital in the whole branch of industry. The surplus profit which the capitalists of the more developed industries of the branch would previously earn are eliminated and the rate of profit undergoes an overall decline. This will compel the capitalists to introduce new technological improvements etc.

Hence we see how the competition within branches induces a technological development and an increase in the productive forces. In the present phase, this type of competition is consistently declining.

● *Competition between branches.*

This is competition between the capitalists of the various branches for a more profitable investment spread.

The capitals invested in the various branches of production have an uneven organic composition. Since the surplus-value is created *exclusively through the labour of the workers,* in the factories of branches where a low organic composition of capital prevails the same amount of capital will produce a relatively greater mass of surplus-value. On the other hand, in the companies where the organic composition of capital is higher, the mass of the surplus-value will be *comparatively* smaller.

Let us take a closer look.

Suppose there exist three industrial branches: shoes, textiles and engineering. $100 million of capital is invested in each of the three branches, but the organic composition of capital is different.

In the first one (shoes) the breakdown is:

$70 million in constant capital, $30 million in variable capital.

In the second one (textiles) the ratio is \$80 million in constant capital and \$20 million in variable capital.

In the third (engineering) the ratio is \$90 million constant capital and \$10 million variable capital.

We can assume that the rate of surplus-value in the three branches is equal to 100%. We can deduce from this that the surplus-value created by the shoe industry will be \$30 million, textiles \$20 million and the engineering branch \$10 million.

*The value of the commodities* (constant capital + variable capital + surplus-value) in the first branch will be \$130 million, in the second it will be \$120 million and in the third it will be \$110 million. The total value will be \$360 million.

If the commodities are sold at their value, the rate of profit will be 30% in the shoe industry, 20% in textiles and 10% in engineering.

*We can thus observe that the distribution of profits is favourable to the capitalists in the shoe industry and detrimental to those in the engineering industry.*

The latter will attempt to achieve a better performance for their capital and will transfer it to the shoe industry. This transfer of capital from one branch of industry to the other will result in an increase in the production of shoes. Competition will become more acute; the companies will then be compelled to lower the prices of the commodities they produce, and this will in turn induce a drop in prices and the rate of profit.

On the contrary, in the engineering branch, the quantity of machines produced will decrease and the ratio of supply and demand will then allow for a surge in prices and an increase in the rate of profit.

The drop in prices in the shoe industry and the increase in prices in the engineering branch will continue until the rate of profit between the three branches more or less evens out. This means, in effect, until the three branches reach a point where they each sell their commodities at a price of \$120. *The rate of profit for each would then be the average,* 20%.

Hence we can *characterise the average rate of profit as an equivalent profit for capital investment in different branches of production.*

This example was chosen with a single purpose: to *demonstrate that competition between the branches of industry tends to even out the rates of profit* in the different branches of capitalist production and bring about a general average rate.

The tendency toward equalisation is achieved through the transfer of capital — which implies a transfer of labour — from one branch to the other. The formation of the average rate of profit implies that for the capitalists of certain branches (the shoe industry, in the above example) there occurs a loss of part of the surplus-value which is produced by the workers. On the other hand, for the capitalists of the other branches (engineering in the above example) there is an excess surplus-value.

This means that the first will sell their commodities at prices set below their value while the others will sell above their actual value.

The price of the commodities in each branch is formed henceforth by the *production overhead* (which amounts to 100 in the example) and by the average profit (which amounts to 20): this is what we call the *price of production*.

In the different companies of a given branch, the differences in the conditions of production lead to different production prices, which are determined by the individual production overheads added to the average profit. But the commodities are sold — on the average — at an identical production price.

The formation of the *average rate of profit* and the *price of production* can be illustrated as follows:

| | *Constant capital* | *Variable capital* | *Surplus value* | *Trading value* | *Av. profit rate* | *Prodn. price* | *Prodn. price value* |
|---|---|---|---|---|---|---|---|
| *Shoes* | 70 | 30 | 30 | 130 | 20% | 120 | -10 |
| *Textiles* | 80 | 20 | 20 | 120 | 20% | 120 | nil |

Here we see that, contrary to what occurs in a simple commodity production system, the commodities produced are no longer sold at their value but at prices which correspond, more or less, to the price of production.

The condition for this can be described as follows: It is necessary to secure the possibility of a free transfer of capital from one branch of industry to the other.

## 31. TENDENTIAL DECLINE IN THE RATE OF PROFIT

The part of capital which alone allows for the production of surplus-value is variable capital. This tends to be a dwindling part of the total capital because machines push out living labour (investments are aimed at labour-saving devices) and, since a period of expansion is followed by an increase in the value of raw materials and of energy (which is the same as saying that a pressure is exerted towards an increase in the share of constant capital) there is a *tendency toward a decline of the rate of profit which is written in the very logic of capitalist development* (there also exists a counter-tendency which can, of course, neutralise for a certain time or at least slow down this tendency).

The drop in the rate of profit can be verified in the *long term* (see the so-called "breakdown of productive investment" in the imperialist countries since the late 1960s). It can also be verified in the *economic cycles* (7 to 10 years). The rate of profit rises at first with economic recovery (or, among other things, the initial pressure exerted by unemployment). It rises with the boom, which induces price increases. It begins to deteriorate once full employment is achieved with the corresponding wage increases, and drops on the eve and at the beginning of the recession. *This process is not uniformly repeated* between the different branches.

## 32. Commercial capital — banking capital

The thrust of capitalist development causes commercial capital and usurers' capital to lose their specific and independent place and to link up with the industrial capital. *They existed before industrial capital*, but once industrial capital reaches a certain level of development, the various forms which it assumes (productive, monetary, commodity) become distinct.

Commercial capital (trading capital) and loan capital (banking capital) become separated from the industrial capital which was initially invested in the productive process.

● *Commercial capital is the capital invested in the sphere of commodity circulation*. In this sphere, surplus-value is not being created. Where then does the profit of the trader come from?

If capitalists must also realise the commodities produced, they will be compelled to increase their capital outlay (given all the overheads involved), or to reduce production if they are unable to increase the capital outlay. Whatever the case, they will experience a decrease in profit rate.

By assigning the trader the specific (specialised) task of commodity circulation, the capitalist can *reduce* the duration of circulation as well as the expenditures involved. On the other hand, commercial capital, by taking charge of the realisation of the commodities of a large number of industrialists, will reduce the part of social capital which is removed from the sphere of production and channelled to the sphere of circulation.

In this way, the industrialist will be better off. Indeed, the delegation of this function to the trader accelerates the *rotation of capital* (and in this way increases profits). Therefore, the industrialist parts with a portion of the surplus-value, which makes up the profits of the commercial capitalist.

*Commercial profit is a part of the surplus-value of the industrialist* which is handed over to the commercial trader in order that the latter may realise the commodities on behalf of the industrialist.

Commercial employees are *exploited* by commercial capitalism. They must guarantee the transformation of the commodities into money and of the money into commodities; their function creates neither value nor surplus-value. However, they give the capitalist the ability to appropriate a part of the surplus-value of the industrial capitalist which is created in the sphere of production. The day of a commercial employee is divided in the same manner as the day of a factory worker, into the necessary and the supplementary labour (surplus labour).

The process of capitalist circulation produces expenditures which are called *circulation costs*.

● *In the course of capital turnover*, the capitalist can have at his or her disposal, for a certain time, a sum of money which is "inactive money" because it does not produce a profit. This is available for lending at interest or may be needed at times in order to buy raw materials or machines at a time when the mass of the commodities has not yet been realised on the market.

Since the capitalists can receive money on loan, they are not compelled to leave the available money inactive. The loan enables industrialists to expand production, to increase the number of workers and to *increase in this way the mass of surplus-value created*.

In order to remunerate borrowed money capital (loan capital), the industrial capitalist will disperse a given amount of money to the lender capitalist (banker). This sum is called interest. Thus, interest is the part of profit which the industrial capitalist hands over to the lender capitalist in return for the advance which the latter consented to give him. The source of interest is surplus-value.

The owner of *money capital* makes it available to the industrial capitalist for a given period of time, and the latter uses it to extort surplus-value. A *separation* will take place between the *ownership* of capital and the *utilisation* of capital in production.

*Credit* is the form taken by the movement of loan capital. Through credit, the available money capital is transformed into loan capital remunerated by interest. Credit takes the form of *bank credit* and commercial credit (with time these functions will merge in the same banks).

The banks *will concentrate into their hands a good part of the available money of society (in cash) and make it available to the traders and industrialists in the form of capital*.

## 33. Periodic crises of overproduction

Capitalist economic crises do not result, as in the case of pre-capitalist economic crises, from physical scarcity (*underproduction of use-values*), but from an *overproduction of exchange values* (commodities).

Increase in the organic composition of capital and a downward tendency in the average rate of profit, conditioned by this, are general laws of the capitalist mode of production. By bringing about a periodic modification in the price of production of commodities, they give rise to general crises of overproduction.

The introduction of new machines and new production methods do not change the price of production in a gradual manner, but rather through sudden shocks, at more or less regular intervals, when society becomes aware *after the event* that too much social labour has been expended in producing certain commodities.

In periods of strong growth of capitalist production (booms) — when current output is easily sold (when demand seems stronger than supply) and profits are high — there will be an "investment boom" which will rapidly run into bottlenecks in both sub-sections of Department I — that of machinery and equipment, and that of raw materials. Both these sub-sections of Department I, by their very nature, are less flexible in adapting rapidly to demand than is Department II. Hence additional investment, capital accumulation, will occur on a larger and larger scale in Department I (Marx even saw, in the massively bunched introduction of fixed capital at intervals of 7-10 years, one of the main reasons for the periodicity of the industrial cycle and the determining factor for its average duration).

More means of production have to be produced to produce additional means of production for producing additional consumer goods. Good profit expectations in addition to high profit realisations are the motivation for this boom. Hence, there is a shift of investment towards Department I. An uneven development (disproportion) between Department I and Department II is set in motion.

At a certain point in the boom, two parallel phenomena occur more or less simultaneously:

● The additional means of production come into the production process only after a certain time-lag. But when they enter into that process, they increase the productive capacity in both departments by leaps and bounds. But precisely the relatively high rates of profit and investment imply that real wages and consumer-goods demand from capitalists and their hangers-on could not have developed in the same proportion as this sudden increase in productive capacity in both departments (even if output grows less rapidly in Department II than in Department I, and even if real wages also grow). Hence a tendency to increasing overproduction (or overcapacity) occurs, in the first place in Department II.

● The massive introduction of new means of production in both departments does not occur with old techniques, but with new techniques characterised by a basically labour-saving bias, i.e., by an increased organic composition of capital. This presses down the rate of profit, especially since under boom conditions the rate of surplus-value cannot increase in the same proportion, or even does not increase at all (due to high or increasing employment of labour-power). Hence there is a tendency to over-accumulation — part of the newly accumulated capital can no longer be productively invested at the average rate of profit, or even invested at all, is pushed towards speculation etc.

Credit expansion, for a time, covers the gap. But it can only postpone the crash, not avoid it.

Overproduction now tends to spread from Department II to Department I (This, of course, is not an absolute rule. Overproduction could start in certain sub-sections of Department I. However, in most cases it has not happened in this way. In the 1974-75 and 1981-82 crises, overproduction began in the consumer durable goods sub-section of Department II — automobiles and the building industry).

Growing overproduction of commodities (overcapacity in a growing number of branches of industry), combined with growing over-accumulation, must of necessity lead to sharp cutbacks in productive investment. Disproportionality between the two departments now jumps from an "overextension" of Department I into an "underdevelopment" of that department. Investment falls more quickly than current output.

As a result of the crash — which can, but does not necessarily, take the initial form of a credit and banking crash — there is a general collapse of commodity prices (expressed in gold), together with a decline in output and employment. There is a general devalorisation of capital, as a result — simultaneously — of this collapse of prices, of a larger number of bankruptcies and of a decline in the value of the fixed capital and raw-material stocks of surviving firms.

This general collapse of prices is nothing but the adaptation of market prices and prices of production (through a lower average rate of profit) to the general lowering in the value of the average commodity, which is the unavoidable outcome of the general increase of investment, organic composition of capital and average productivity of labour during the previous period. Capitalists try to postpone this hour of reckoning as long as possible — hence the overextension of credit, speculation, over-trading etc., on the eve of the crash. But they cannot postpone it indefinitely. *The collapse of the boom is thus the collapse of the attempt to maintain the former level of values, prices and rates of profit with an increased quantity of capital.*

The economic effects of the crisis, for the system as a whole, are healthy, however "unhealthy" they may be for individual capitalists. General devalorisation of capital is not accompanied by a proportional reduction in the mass of surplus-value. Or — which is the same thing — an identical mass of surplus-value can now valorise a smaller total amount of capital. Hence the decline in the rate of profit can be temporarily stopped and even reversed.

Large-scale reconstitution of the reserve army of labour, occurring during the crisis and the slump ("recession") which follows it, makes possible a vigorous increase in the rate of surplus-value, not only through speed-ups but even through a cut in real wages, which in turn leads to a further rise in the rate of profit. Raw-material prices generally fall more than the prices of finished goods, so part of constant capital becomes cheaper. The rise in the organic composition of capital is thereby slowed down, again pushing up the average rate of profit on industrial capital. A new cycle of stepped-up accumulation of capital, stepped-up productive investment, can now start, once stocks have become sufficiently depleted and current production sufficiently cut for demand again to outstrip supply, especially in Department II.

It follows that the tendency for the average rate of profit to decline is less a direct explanation for crises of overproduction strictly speaking, than a revelation of the basic mechanism of the industrial cycle as such: In other words, an uncovering of the specifically capitalist, i.e., uneven, disharmonious, mode of economic growth, which unavoidably leads to successive phases of declining rates of profit, and temporary recuperation of the rate of profit as a result of the consequences of the previous decline.

The basic causes of periodic crises of overproduction are, at one and the same time, the inevitable periodic decline of the average rate of profit, the capitalist anarchy of production and the impossibility under capitalism of developing mass consumption in correlation with the growth of the productive forces.■

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