Economics for all

by Ray Nunes

Foreword

‘The most profound, comprehensive and detailed confirmation and application of Marx’s theory is his economic doctrine’.(1) So wrote Marx’s great successor V.I.Lenin in 1913. As every well-informed worker should know, Lenin was the architect of the world-historic socialist revolution of 1917 in Russia. In this immense crucible of practice the truth of Marx’s theory was proven. A major role in this and the subsequent building of socialism in decrepit and ruined Russia was played by the creative understanding of the science of Marxist Political Economy by Lenin and his colleagues.

Prior to Marx, bourgeois (capitalist) economists had racked their brains in vain to solve vital economic problems, particularly the source of capitalist profit. Marx solved them. Frederick Engels, lifelong collaborator of Marx, notes that Marx understood ‘a peculiar fact, which runs through the whole economics and which has caused utter confusion in the minds of the bourgeois economists: economics deals not with things but with relations between persons, and in the last resort between classes; these relations are, however, always attached to things and appear as things. The interconnection, which in isolated cases it is true has dawned upon this or that economist, was first discovered by Marx as obtaining for all economics, whereby he made the most difficult questions so simple and clear that now even the bourgeois economists will be able to grasp them.’(2)

Although we live today in the stage of monopoly capitalism, imperialism, Marx’s economic doctrine provides the groundwork from which understanding of this stage was developed. In its main essentials it is still true. A later pamphlet in this series deals with the question of the growth of monopoly into the stage of imperialism. Regrettably, for reasons of space, we can only touch here on a few aspects of the political economy of socialism.

1) ‘Karl Marx’, by V.I. Lenin, Sel. Wks. Vol. II

2)Engels, Review: ‘Karl Marx, A Contribution to The Critique of Political Economy’ (1859)

Section I

The Basis of Capitalism - Exploitation

Most wage earners in New Zealand realise even if only vaguely that their employer makes a profit out of their labour. They may not think of him as a capitalist, but if he owns capital and employs wage labour that is what he is none the less. In fact when New Zealand was first colonised such people quite often listed their occupation as ‘capitalist’. Nowadays they call themselves company directors. Such owners of capital make up the capitalist class.

There are different groups within the capitalist class - industrial, commercial and financial capitalists, corresponding to the role played by the capital which they control. What separates capitalism from all previous societies, however, is the vast growth of industrial production, the mass production of commodities by wage workers. It is the industrial capitalist who is responsible for capitalist production, and it is capitalist industry which creates - and re-creates - the working-class. The profits of the other sections of capitalists actually come from industrial production in the first place. Marx analyses this process in ‘Capital’ Volume 3. In the older capitalist countries there exists also a class of landlords, big landowners who lease their land to capitalist tenant-farmers who employ wage workers. This is the classical type of capitalist farming. For historical reasons development has been rather different in New Zealand, but there is certainly a class of big capitalist farmers who employ wage workers. However, agricultural capitalism has certain economic features different from those in industry. We shall look at these further on.

Because they own a major part of the means of production the capitalists as a class own a large part of everything that is produced. But the actual producers of this wealth are the wage workers who themselves own nothing but their ability to labour. It is they who make up the working class.

Capitalists as a class own the means of production, a basic fact which enables them also to own what is produced. What are ‘means of production?’

They include the land, factories - with their buildings and the machines and tools in them - forests, lakes, fishing waters, raw materials, means of transport and communication, underground workings, commercial farm animals - in fact, the various means on which labour can be applied to produce wealth. But these, as the description shows, include natural resources. Thus, Marx comments: ‘We see, then, that labour is not the only source of material wealth ... As Sir William Petty [an earlier economist] puts it, labour is its father and the earth its mother.’(1)

The capitalist carries on production for his own benefit by putting the workers’ labour to use. Now, to put something to use for one’s own benefit is to exploit it. The capitalist class exploits the working class in order to enrich itself. To be exploited, one doesn’t have to work for the lowest pay or under a slavedriver. Because their labour enriches their capitalist employer, even the best-paid workers are nevertheless exploited. We can see, then, that capitalism is a system of exploitation of one class by another.

Here, but hold on! says the capitalist. I don’t exploit people. I pay the full price for my workers’ labour. It is my capital which earns money for me, just as your labour earns money for you. It is a natural property of capital to earn money. Besides, I provide jobs for you workers. If it wasn’t for people like me how would you live? When all is said and done, you want to remember that capitalism has always existed and always will exist.

Yes, we are familiar with your creed, we reply. You capitalists own the means of production and therefore are the ruling class under capitalism. Consequently your ideas are the ruling ideas. We get them fed to us from birth onwards. But that does not in the least mean that they are true. They re merely what you want everyone to believe so that you can maintain your position as a privileged class. In fact, the ideas of capital and capitalism which you have just expressed are totally false. And we shall proceed to explain why.

Marxist Political Economy

In order to understand any social system properly one must understand the economic laws which govern its growth, its behaviour and its decay. These laws make up the inner workings of Political Economy. The great thinkers and founders of modern socialism, Karl Marx and Frederick Engels, were the first to give the world a proper scientific understanding of the social and economic system we know as capitalism. Marx in particular placed the science of Political Economy on a new footing.

One cannot study the economic laws of capitalism in the economics textbooks of our universities. These simply justify capitalism. One must turn to Marxist Political Economy. 'Political Economy in the widest sense' writes Engels 'is the science of the laws governing the production and exchange of the material means of subsistence in human society.' By 'material means of subsistence' is meant the things man needs in order to live, particularly the essentials of food, clothing and shelter, Here our main concern is the political economy of capitalism and we can only touch in passing on the forms of society that came before it.

Capitalist Production and Exchange

When something is produced in a factory today, whether it be a plane, a pullover or a pin, it is usually not produced for the factory owner to use himself but in order to sell. Such a thing produced for sale to others is known as a commodity. But the production of commodities which is universal today was not at all the usual thing in the earlier history of mankind. Then people lived in small scattered tribes which were more or less self-contained communities. In those days people produced directly for their own use and not to exchange or sell. Gradually, as early tribal communities grew in size and contact between them started to develop, so did the exchange of goods, first by barter and later with the aid of primitive forms of money such as cattle. But exchange or trade did not become regular until man began to grow crops and bring animals into domestic use by breeding cattle, sheep and goats. A separation eventually took place between crop-growing tribes and those raising animal herds. Thus the labour of society became divided into these two main kinds of production, agricultural and pastoral. It was the first great social division of labour. By being able to concentrate on one type of production each group of tribes grew more skilful at their work so that their labour was more productive than formerly. As a result, for the first time a regular surplus of products of the land became available, leading to the development of regular exchange.

By the time of the Middle Ages, when the feudal system existed, many further divisions of labour had taken place. Commodity production by then was widespread. But it was carried on mostly by individual craftsmen such as carpenters, weavers, smiths, tailors, wheelwrights etc., in the town, or by peasants in the countryside. Such people owned their own tools, workshops, storehouses and raw materials or if they were peasants their own plot of land; in other words they owned their own means of production. Commodity production of this type, by individuals owning their own means of production and not employing wage workers is known as Simple Commodity Production.

This was the basis on which Capitalist commodity production developed. It began with the master handicraftsman enlarging his workshop and employing more or less substantial numbers of wage workers. Having workmen together under one roof and under the direction of the capitalist made their labour more productive than when they worked as individuals, even though each workman made a complete product (e.g. a coat, a wheel) by himself. This form of labour organisation is known as simple cooperation. At a later stage this turned into manufacture, where although production is still carried on by hand, division of labour is the rule. By breaking down the production of an article into a number of specialised jobs, the employer could thus produce more in a given time than before. Capitalism was finally able to oust all old forms of production by the introduction of machine industry, the third and highest stage under capitalism in the historical process of raising the productivity of labour.

It is the employment of wage labour which distinguishes Capitalist Commodity Production from Simple Commodity Production.

Two things were required for Capitalist Commodity Production to become established and grow. The first was a ready supply of workers who owned no means of production and therefore had to sell themselves to the capitalist in order to live. In Britain from the end of the 15th century this supply was achieved by the large-scale forcible seizure of peasant farms by the big landowners. A series of laws known as Enclosure Acts were passed by successive governments and gave this class the legal right to enclose commonly-held village land traditionally used by small peasants for pasture, firewood etc. to supplement their subsistence farming, thus enabling the landowners to drive masses of impoverished free peasants off their small plots of land and into the towns as destitute workers, thus creating a readymade reservoir of labour for the new capitalist class.

The second requirement was a sufficient supply of money capital in private hands available for use in this new form of production. Some already existed from previous moneylending and commerce. More was soon available from the seizure of peasant property, and from growing foreign trade based on plunder such as the looting of the East Indies and the African slave trade. It was with this accompaniment of force in the service of unrestrained greed that capitalism came on to the stage of history.

The growth of capitalist production did not proceed smoothly. It was hampered by feudal restrictions. For example, in Britain influential nobles were granted monopoly trading rights in many basic commodities such as salt, glass, soap-making and coal shipping. In addition, the landowning nobility monopolised political power. Engels remarks: ‘Where economic relations required freedom and equality of rights, the political system opposed them at every step with guild restrictions and special privileges. Local privileges, differential duties, exceptional laws of all kinds affected in trade not only foreigners, but often enough also whole categories of the nationals of the country concerned…’(2) These restrictions, maintained by force, could only be swept away by force. In Britain, between 1640 and 1688 the capitalist class succeeded in organising a revolution which overthrew the feudal system, clearing the way for the rapid development of capitalism and with it the ascendancy of the capitalist class.

As the new system was established men of enquiring minds sought to understand its nature. Some were partially successful. But it was not until Marx wrote his great work ‘Capital’ that all the inner workings of the system were clearly revealed. Some of the main ideas of Marx’s economic doctrine are briefly sketched in the following pages.

The Use-Value and Value of Commodities

Capitalism is a system of production of things for sale on the market, i.e. commodities. But a commodity is not such a simple thing as it may appear to be. In reality, as Marx showed, it has a two-fold nature - at one and the same time it is both a use-value and a value. What does this mean?

For something to be a commodity it must in the first place be wanted by people, perhaps to eat, perhaps to wear but certainly to be put to use in some way. Otherwise it would be unsaleable and consequently not a commodity. A commodity must therefore have a value in use; that is, it must be a ‘use-value’. What gives this use-value to a commodity is the particular kind of labour that goes into it. The labour of a tailor gives a pair of trousers the bodily shape which makes them able to satisfy a social want, to serve as a use-value; the labour of a cabinet maker does the same for a table. Marx calls the particular form of labour which imparts use-value to a commodity ‘concrete labour’.

But when a commodity comes on to the market it also has another sort of value, that is, a value in exchange or an ‘exchange value’. Every day millions of commodities change hands. A certain number of use-values of one sort is exchanged for a certain number of another sort. Although money is used as a go-between, the actual process is still one of exchange of commodities, and each commodity has a definite exchange value.

What brings it about then, that each thing exchanges with others in a certain proportion? If a pair of trousers has the same exchange value as a table, what does each contain that fixes this proportion? Why should not a pair of trousers be exchangeable for three tables or ten for that matter?

The fact is that each of these commodities contains something common to both that can be measured. What is this ‘something’? The material of which they are made is different, their use-values are different, and the concrete labour which imparts those use-values is different. Apart from both being use-values, therefore, the only thing that the trousers and table have in common is that they are both products of human labour. Each of these commodities - and this is true of all others as well - represents a certain part of the total labour of society. It is a product of human labour in general, of labour stripped of the concrete character that imparts use-value. Marx therefore calls it ‘abstract labour’.

Thus each commodity contains a certain amount of labour which has been worked up in it. The measure of this labour is time, the time needed to produce a given article under average conditions of production by workers using an average degree of skill and intensity of labour.

We can now see why our pair of trousers and table - and indeed all other commodities - exchange in certain proportions. Because each contains Value, which is a definite amount of socially necessary labour time embodied in a commodity. So much Value (socially necessary labour time) in this commodity equals so much in that commodity.

As indicated above, the labour time ‘socially necessary’ is that required under average conditions of production. To produce a toothbrush by hand may take a hand worker thirty minutes but if three minutes is the time needed under average conditions of production with workers using machines, then only that three minutes is socially necessary labour time. This is what determines the value of the toothbrush. The extra time taken by the hand worker will count for nothing. Marx gives an example from history to illustrate this. When the power loom was introduced in Britain it halved the labour time needed to produce a yard of cloth, i.e. the labour time socially necessary. The hand loom weaver now had to work twice as many hours as before in order to produce cloth containing the same amount of value as formerly. Hand looms soon became obsolete, and weavers had to work in factories for wages in order to live.

Value is a Social Relation

To sum up then. The value of a commodity is determined by the socially necessary labour time embodied in it.

A commodity has two sides to it, use-value and value. The labour incorporated in a commodity has a two-fold character; concrete labour imparts use-value while abstract labour imparts value. This two-fold character of labour is of basic importance to the understanding of Marxist Political Economy.

In a system of commodity production, commodities exchange at their values, i.e. at the socially necessary labour- time incorporated in them. This is the Law of Value, called by Engels the basic law of commodity production, ‘hence also of its highest form, capitalist production.’(3)

A commodity is a product of society in which a division of labour exists between producers, such as shoemaking, metal working and so on. It is this social division of labour which stamps the product as a commodity. But in the act of exchange the particular types of labour - the shoemaking, the metal working etc., - are all reduced to one and the same kind of simple, uniform labour, and the commodities concerned each represent just so much of the total labour time of society. Thus, underneath what appears to us as an exchange of things is an exchange of the labour of different people. Value, then, is a connection between people in society or in other words a social relation. This fact, however, is obscured by the use of money in measuring the value of commodities and assisting their exchange.

Self-study questions

1. Consider what is a commodity, and whether all things used in the history of humankind as means of subsistence were necessarily commodities.

2. ‘Value’ is a category of Political Economy. Can you define both Value and the Law of Value?

3. What is meant by ‘the division of labour’?

4. What is Simple Commodity Production?

5. What distinguishes Capitalist Commodity Production from Simple Commodity Production?

6. How did Capitalist Commodity Production develop historically?

7. Can you explain the twofold nature of commodities?

8. Marx was the first to explain the twofold character of labour underlying the twofold nature of a commodity. What importance does this have in explaining the Law of Value?

9. What is meant by ‘Value’ being a social relation?

Money - The Measure of Value

In a developed capitalist economy money fulfils a number of functions. Of these, the chief function is that of measuring the value of commodities.

To serve to measure the value of other commodities, money itself must be a commodity and must have value. This it possesses in its original form of precious metals, gold and silver. Precious metals have value as commodities because a certain amount of gold or silver contains a definite quantity of socially necessary labour time.

The Forms of Value

It took many centuries for money to evolve from a system of primitive coinage to the paper currency of today. And primitive coinage itself took even longer to arise. Thus, money has developed through different stages. So, too, has the form of value. The value of a commodity has not always been expressed in money. When exchange was rare and an act of exchange was therefore more or less accidental, so the form of value is also accidental; so much of one commodity is exchanged for so much of another in a simple barter transaction such as,

1 axe = 20kg wheat

Eventually, value acquires a money form. Between these two forms - the accidental and the money form -are a number of others, corresponding to different stages in the development of commodity production and exchange and analysed by Marx. Here it is sufficient to note that as exchange grows and the variety of commodities increases, in time one particular commodity becomes singled out from the rest as exchangeable for everything. It therefore becomes the yardstick for measuring the value of all others; it becomes the universal equivalent. Various things have played this role, but gold and silver finally established themselves as the sole universal equivalent and became the money form of value. It can be expressed this way:

20kg of sugar

8 pairs of socks

4 sacks of coal = 1oz. gold

2 spades

X Commodity A

The paper money which has replaced gold as the money form of value is still only token money standing in place of gold. The quantity of paper currency must be related to the amount of gold which would be needed for the circulation of commodities if there were no bank notes. In most countries, until the 1970s, this quantity of gold formed the country's gold reserve which served as the backing for its currency. When more paper money is printed than the value of the reserve justifies, then a condition of inflation exists. We must say here, however, that owing to the fact that the world's gold supply was largely monopolised by the USA at the end of World War II, state holdings in US dollars became the equivalent of holdings in gold, recognised as 'world money'. This is one of the functions of money as a store of value. However, other 'hard' currencies are now challenging the US dollar for this role. But all relate back to gold in the final analysis.

Price and its Relation to Value

With the appearance of the money form of value commodities acquire a money price. It must be remembered that value itself is not money but is something contained within a commodity, namely a definite amount of labour time. Putting a price on a commodity enables that value to be easily measured and stated in relation to other commodities. In the same way as ideas are expressed in words, so value is expressed in a certain price. Price, then, is the monetary expression of value.

Because of price fluctuations influenced by supply and demand, a commodity may sell above its value for some of the time or below its value for some of the time. But these ups and downs compensate each other and thus, over a period such as a year, commodities tend to sell at their values, and total prices equal total values.

The law of value which we discussed earlier states that commodities exchange at their values, that is, at the socially necessary labour time embodied in them. But it operates as an unseen force. In capitalist society there is constant competition between individual capitalists and between groups of capitalists (we have to leave the question of monopoly to be dealt with in connection with imperialism). This results in production being carried on without regard for the market. In some lines more will be produced than the market can absorb, in others less. What exists, therefore, is anarchy of production. This itself is a principal cause of fluctuations in supply and demand. Where over-supply leads to a fall in prices so that goods sell below their values, this is a signal to the capitalist to restrict production and to move his capital, or some of it, to another branch where, as a result of under-supply, goods sell above their value.

Thus the law of value acts not only as an unseen regulator of prices in spite of and through their constant fluctuations; it also decides, as it were, which industries need to be expanded or contracted, need more or less means of production and more or less labour. In other words, it regulates the distribution of the means of production and of social labour under capitalism.

The law of value is also important in explaining the sources of profit in capitalist society. 'If ... all descriptions of commodities sell at their respective values it is nonsense to suppose that profit, not in individual cases, but that the constant and usual profits of different trades spring from surcharging the prices of commodities, or selling them at a price over and above their value ... What a man would constantly win as a seller he would as constantly lose as a purchaser'. (Marx 'Value, Price and Profit.')

No, to find the source of profit we must look beyond the process of buying and selling, which political economy regards as part of the process of circulation of commodities. We must in fact look at the very essence of the production process.

Section II

Surplus Value, Profit & Capitalist Exploitation

Quite early in the development of capitalist production it was noticed that a given amount of money invested in producing commodities grew larger when they had been produced and sold.

Before Marx no one could give a satisfactory explanation of why an increase took place. Marx solved the problem by his discovery of surplus value, which provided the key to understanding and exposing all the workings of the capitalist system. Scientific socialism, says Engels, dates from the discovery of this solution and has been built up around it.

Many people still imagine that profit is made simply by the capitalist owner of a product arbitrarily adding on what additional percentage he likes. Before Marx no-one could give a satisfactory explanation of where profit comes from. What Marx did was to prove with great clarity just how profit is made, even though the capitalist buys the commodities at their value and sells them at their value, a problem which was an insoluble riddle to economists before him.

As we have seen, in the exchange or circulation of commodities the law of value prevails; that is, the exchange of equivalents. Surplus value cannot therefore originate in this process. Nor can it originate in an addition to price, as the gains and losses of buyers and sellers would simply cancel each other out.

For surplus value to arise the capitalist must find in the market a commodity of a special kind, one which creates value while it is being consumed. In other words a commodity whose use-value is at the same time a source of value. A strange commodity, it seems, but all the same, one which exists. It is human labour power.

Many workers think that because they receive their pay after they have performed a day's or week's labour for the employing capitalist that what they have sold is their labour. In fact, what they sell is their ability to work, their labour power. The employer consumes this commodity by putting the worker to work. The worker's labour thus represents the consumption of the commodity 'labour power', by the purchaser. But in the process of labour, value is created in the shape of saleable commodities.

On the average, the capitalist buys labour power at its value which, like the value of other commodities, is determined by the socially-necessary labour time embodied in it. And this is simply what it costs to keep the worker and his family alive. For the worker must not only be able to work himself - he must also be able to rear new workers to labour for tomorrow's employers so that the springs of capitalist wealth may be kept flowing.

Having bought the workers' labour power, the capitalist sets it to work producing. In the course of a day or a week (and this is the crux of the matter) the worker produces considerably more value embodied in new commodities than the cost of his own maintenance for that time. This surplus above the value of the worker's labour power is the source of the capitalist's profit. It is surplus value.

More on Surplus Value

Let us take a worker in a factory in New Zealand. Assume that the capitalist buys his labour power for 40 hours for $600. It will take the worker only 20 hours or less (and with today's means of production usually much less) to produce values equal to that $600. Marx calls this period in which the worker replaces the value of his own labour power 'necessary labour-time'. But the worker does not stop at that point. He continues for the next 20 hours to produce as much value per hour as he did in the first 20. The capitalist gets this value without any payment. It is surplus value, unpaid labour-time.

In this surplus value lies the secret of capitalist wealth and also of capitalist exploitation. If the worker produced in an 8 hour day only as much value as the cost of his maintenance (wages) for 8 hours, then there would be no surplus product and no surplus value. Capitalist production would be impossible.

Constant and Variable Capital: The Rate of Surplus Value

Let us suppose a capitalist is starting production of some commodity. He lays out a certain amount of money on means of production such as machines, tools and raw materials. He also lays out a certain amount of money for wages, or labour power, and begins production. Both amounts of money together represent his capital.

In the process of production a part of the value of the means of production is transferred to each finished article. This part of the total capital undergoes no change in its value. Its size remains constant and therefore Marx calls it constant capital. The amount spent on labour power however, changes in size because the labour process creates new values which enlarge it. Thus it varies, and is therefore called variable capital.

If we wish to find the rate at which surplus value is produced for the capitalist, the amount of surplus value must be measured not against the whole capital but only against the variable capital. In our earlier example, the rate of surplus value was 20 hours of unpaid labour time to 20 hours of paid labour time, i.e. 100%. This rate can also be called ‘the rate of exploitation’. If we use the letter ‘s’ for surplus value, and ‘v’ for variable capital, then s/v =100%. If there are 30 hours of unpaid to 10 hours of paid labour time, then s/v - the rate of exploitation - is 300%. (The present trend is for giant US, Japanese etc. companies to set up industries in cheap labour areas like South Korea, Taiwan and Central America. There the rate of exploitation is several times that in the advanced countries).

If on the other hand we measure the surplus value against the total capital invested, this tells us the rate of profit. Thus, if we also use the letter ‘c’ for constant capital, then the rate of profit is:

$$\frac{s}{c + v}$$

In any sum of invested capital the proportion of constant to variable capital is called the ‘organic composition’ of capital. Heavy industries such as steel or engineering have a high proportion of constant capital, or a ‘high organic composition’. This is because there is a large investment in machinery, buildings and raw materials as compared to labour employed. In the clothing and building industries the opposite is true.

The competitive pressure requiring the installation of more and more productive machinery to replace human labour causes the organic composition of capital to continually rise. But as surplus value is created by variable capital only, the general tendency is therefore to reduce the proportion of surplus value to total capital. That is, the rate of profit has a tendency to fall. This is often counteracted by other influences which we cannot deal with here, but over the long term it makes itself felt in intensified exploitation of workers by capitalists who in this way strive to keep up the rate of profit. Also it leads to sharpened competition between the different sections of capital for the available amount of profit.

Values into Prices

Bourgeois economists sneered at Marx’s analysis, claiming that values could not be transformed into prices. However Marx gave a detailed explanation of the process of transformation in Volume 3 of ‘Capital’ but died before publication, which took place under Engels' editorship. Lenin gives the following brief and precise summary of what actually takes place:

'Capital with a 'high organic composition' ... yields a lower than average rate of profit; capital with a 'low organic composition' yields a higher than average rate of profit. The competition of capitals and the freedom with which they transfer from one branch to another reduces the rate of profit to the average in both cases. The sum total of the values of all the commodities of a given society coincides with the sum total of prices of the commodities; but, owing to competition, in individual undertakings and branches of production commodities are sold not at their values but at the prices of production (or production prices), which are equal to the expended capital plus the average profit.'(4)

As can be seen, this means that in both heavy and light industry, invested capital receives the average rate of profit. Marx shows this in Vol. 3 with detailed arithmetical examples which, however, would unduly lengthen this section. (For a shorter exposition the reader is referred to a letter from Marx to Engels, August 2, 1862, in the 'Correspondence'.)

Absolute and Relative Surplus Value

From the beginnings of capitalist society each capitalist strove constantly to increase his surplus value. History shows that there are two main ways which the capitalists as a class use to achieve this. The first is by lengthening the working day. Marx calls this form Absolute Surplus Value. The second way is the shortening of the 'necessary' part of the working day; that is, shortening the amount of time needed for the worker to reproduce the value of his labour power. Marx calls this form Relative Surplus Value.

(1) Absolute Surplus Value: If in a working day of 8 hours there are 4 hours of necessary labour and 4 hours of surplus labour, then every extra hour (or part of it) the employer can add to the working day without increasing the weekly wage is an hour of unpaid labour time in his pocket. In Britain over a period of several centuries the various governments passed laws to lengthen the working day in order to help the capitalists. Not until the last century was the working class able, through growing organisation, to succeed in getting laws passed to shorten the working day. In 1833 the British Parliament reduced the working day for children 13 to 18 in four industries

to 12 hours a day! It took further decades of intense working class struggle to achieve first a 10-hour day (1848) and eventually an 8-hour day.

In the earlier period of capitalism when production techniques were slow to change and workers were too unorganised to be able to stop the extension of working hours, then absolute surplus value was the main form of increasing surplus value. While an increased work-day got more surplus value out of the workers, it added nothing to the productivity of labour. It was simply a matter of getting something extra on the basis of the old process of production. But no large, rapid and continual increase could take place without revolutionising this process. This role was carried out by the industrial revolution which brought in the era of large-scale machine industry.

Nevertheless, the capitalists still use absolute surplus value as a means of increasing their profits.

Firstly, even though for many decades we had a legal 8-hour day and 40-hour week in New Zealand, the capitalists could still obtain large amounts of surplus value through the working of overtime. Even with the payment of penal rates, overtime work increases both the rate and amount of surplus value received by the capitalist. Nowadays, however, penal rates are increasingly being eliminated, to the benefit of the employing class.

Secondly, the various methods (such as speed-up, for instance) used by the capitalists to increase the intensity of labour, act in the same way as prolonging the working day. That is, the capitalists increase their surplus value, not by improving the production process but by taking it out of the hide of the workers through requiring them to expend more muscular and nervous energy in a given time, thus shortening their working lives as also does the working of excessive hours. ‘Japanese work-styles’, ‘Total Quality Management’ (TQM) and other employers’ schemes are all forms of intensifying labour and hence of increasing absolute surplus value.*

(2) Relative Surplus Value: Assuming that the length of the working day remains unchanged, the capitalist can still increase his surplus value by reducing the amount of necessary labour time in the working day. This, as was stated earlier, is that part of the working day in which the worker reproduces the value of his own labour power. Now let us suppose that the

line below represents an 8 hour working day and that each division represents one hour, thus:

Necessary Surplus

1 2 3 4 5 6 7 8

Let us also assume that the necessary labour time is 4 hours, and the remaining 4 hours is surplus value. Then, by reducing the necessary part to 3 hours, 5 hours are left for surplus value.

When new and more productive machines are brought into the process of production, a greater number of articles are produced in one hour by a worker than was previously the case. That is, a rise takes place in the productivity of labour. When this happens - particularly in industries producing articles of consumption - the goods needed for the worker’s maintenance drop in value, as less of the total labour time of society is taken up in producing them. The value of labour power is lowered and so, therefore, is the amount of labour time required to reproduce that value during a working day.

Since the industrial revolution, relative surplus value has been the main form of increasing surplus value, via the road of increases in the productivity of labour. This form makes it possible for the capitalist class not only to reduce the value of labour power more or less continually but also to greatly increase total production, thus increasing the total amount of surplus value.

Of course, to the capitalist one sort of surplus value is just as good as another, so long as he can get his hands on as much as possible. In this never-ending drive for surplus value lies the motive force for capitalist production. But the expansion of surplus value of the capitalist class has all along taken place only on the basis of intensified exploitation of the working class. Thus we see that capital, like value, is a social relation, a relation between people, between definite classes of society.

The total surplus value created by the labour of the workers is not kept entirely by the industrial capitalists as profit. A part goes to the landlords in the form of rent and another part to the financial capitalists in the form of interest. The laws which govern the division of surplus value in this way are dealt with in Volume 3 of Capital but need more space for explanation than is available here.

Accumulation and Crises

The accumulation of capital takes place through a portion of the surplus value extracted from workers being retained and added to existing capital in the form of new and expanded means of production. This enlargement of capital is a process known as the ‘concentration of capital.’ Existing means of production (apart from natural resources) are themselves - machines, buildings, implements etc. - the product of past labour, dead labour. Thus, capital is in reality dead labour used to exploit living labour.

‘The accumulation of capital, by accelerating the supplanting of workers by machinery and creating wealth at one pole and poverty at the other, also gives rise to what is called the ‘‘reserve army of labour’’, to the ‘‘relative surplus’’ of workers, or ‘‘capitalist overpopulation,’’ which assumes the most diverse forms and enables capital to expand production at an extremely fast rate. This, in conjunction with credit facilities and the accumulation of capital in means of production, incidentally furnishes the clue to the crises of over-production that occur periodically in capitalist countries - at first at an average of every ten years, and later at more lengthy and less definite intervals.’(5)

The ‘great depression’ of 1929-1935 was just such a crisis: rapid development of production in the nineteen-twenties, leading to relative over-production and crisis.

Since World War II there have been numerous smaller crises labelled ‘recessions’, but at any time a new, major crisis can break out. Crises result from the anarchy of production under capitalism, where production is maximised without regard to the market which, in the last analysis, consists of the masses of working people whose wages are kept to the minimum in order to ensure maximum profits. Consequently, great quantities of goods are produced which cannot be profitably sold, no matter how much they are needed. Enterprises close, means of production are destroyed or suppressed; as a result, workers are laid off and mass unemployment and deeper poverty become general. Such crises radicalise the masses and speed the possibility of revolution. They are part of the price of living under an exploiting system, capitalism.

Capitalism in Agriculture

In the section on Exploitation we explained that capitalist farming is carried on by large landowners leasing land to capitalist farmers who employ wage labour.

In agriculture, surplus value takes the form of ground rent. Because land is limited and its ownership is monopolised by private owners, the price of production of agricultural products is determined by the cost of production not on the average soil but on the worst soil and under the worst conditions of delivery of goods to the market. If land supply were unlimited and return on capital could be equalised through competition of capitals as in industry, then the price of production would be determined in the same way as in industry. As it is, the production on better quality lands (and lands improved by successive additions of capital) is not sufficient to meet society’s needs. Thus the worst soil has to be brought under cultivation and it determines the price of production. This situation in production brings an extra profit to the capitalist farmer farming on better land, which goes to the landowner as a differential rent. This is the difference between profit on the worst soil and average profit. Besides such rent the monopoly of land ownership gives the landowner the ability to exact a monopoly price which is above the average profit. This is known as absolute rent.

We can only touch briefly on the position in New Zealand. In the main, New Zealand farming, big and small, is carried out on freehold farms. These outnumber leasehold farms by over three to one.

The classical capitalist farming mould thus does not fit NZ, as the farm owner most frequently does not pay rent for his land. In such cases the rent that would normally go to the landowner is kept by the freehold farmer.

It must be said, however, that while the NZ small farmer is on a much higher living standard than the European peasant farmer he is similarly preyed upon by capital. His farm is most likely heavily mortgaged either to a bank or a stock and station agency, and the interest on the mortgage is simply another form of rent. In many cases stock and station agencies direct the farmer's production and fix the income of the 'owner', who really owns in name only. In times of crisis such as the late 1980s, the bank or other lender can foreclose the mortgage and the farmer loses his farm if he cannot keep up the payments.

The area used for farming has not expanded since early in the present century.(6) Although intensive cultivation has raised the value (and price) of the land over decades, there is still insufficient land to maintain each new generation of farm families, with a consequent drift to the cities to become workers (if they can find jobs). Here the banks and the stock and station agencies play the equivalent role of the big landowner, and small farmers are exploited by them. Besides this, in striving to make his farm holding economic, the small farmer presses his family into unpaid labour and works excessive hours, just as does the small peasant in Europe, with labour being intensified to make ends meet.

Writing of small-scale production in Europe on privately-owned farm plots, Marx said that under capitalism the 'exploitation of the peasants differs only in form from the exploitation of the industrial proletariat. The exploiter is the same: capital. The individual capitalists exploit the individual peasants through mortgages and usury; the capitalist class exploits the peasant class through the state taxes.'(7) And though the NZ small farmer has a bigger holding and more livestock than the European peasant, he is subject to the same type of exploitation from which only socialism can free him.

The Inevitability of Socialism

It was Marx who discovered the basic contradiction of capitalism, the contradiction between the social character of production and the private character of appropriation. In his great work, Capital, he made a profound and detailed investigation into both aspects of this contradiction, into the relations of production of capitalism in their origins, development and decline. His analysis of capitalist production shows concretely how on the one hand, private ownership of the means of production tends inevitably towards ownership becoming concentrated in fewer and fewer hands i.e. towards monopoly; while on the other hand production becomes ever more social by bringing masses of workers together into huge factories and mills. The result is increasing exploitation of the mass of the workers by a handful of monopolists. In a famous passage in Capital, describing this process Marx adds: ‘But with this, too, grows the revolt of the working class, a class always increasing in numbers and disciplined, united, organised by the very mechanism of the process of capitalist production itself.’

This revolt of the workers is noticeably increasing in the capitalist world at present. The social character of production demands the social ownership of the means of production - socialism - as the next step in the forward movement of mankind.

Socialism, it should be noted, is but the lower stage of Communism, during which the groundwork is laid in all spheres - economic, social, ideological and political - for the transition to the higher stage, Communism. This transition occupies a lengthy historical period during which, as Mao Tse-tung has pointed out, the class struggle necessarily continues or else, as happened in the formerly socialist USSR, capitalism may re-emerge and capture control again. But despite Mao’s awareness of the possibility, he was still unable to prevent the same thing happening in China after his death. In the pamphlet on historical materialism we pointed out that this is preventable.

To sum up, in his lifetime Marx had sufficient time to thoroughly analyse only one socio-economic formation in the light of the new historical science, namely, capitalism; however, this was by far the most complex formation. He carried out this immense task, in his brilliant work, ‘Capital’. In it he shows conclusively: (1) that capitalism is a system of exploitation of the working class by the capitalist class through the latter’s ownership of capital in the form of the means of production; (2) that the secret of its behaviour lies in the operation of the economic laws governing the production and exchange of goods under capitalism, in particular, the law of surplus value. (3) That capital is above all a social relation, a relation between classes concealed behind the appearance of relations between things (that is, between commodities which are produced, bought and sold); (4) that the capitalist system is itself a product of history and, by virtue of the antagonistic economic and social forces within it, it is bound to be replaced by a new and more advanced social order, socialism; and (5) that the social driving force of this change is the class struggle between the proletariat and the bourgeoisie, with the proletariat acting as the ‘gravediggers’ of capitalism.

A Look Back at Earlier Claims

Let us now briefly answer the claims made by our capitalist in section I:

(1) You say that you do not exploit workers because you pay the market price (or value) of labour power. The argument is phoney. Capitalism is based on the capitalists' ability to buy labour power at its value and still get surplus value, because labour, i.e., the consumption of the commodity labour power, creates more value than the capitalists pay in wages. You appropriate the surplus value your workers produce, therefore you are an exploiter.

(2) You say that your capital 'earns' money, just as the workers's labour earns money for him. But earning is a process involving labour. It is carried out by people, who earn a wage by honest toil. In contrast, capital does no work, produces nothing. To talk of capital 'earning' money is merely capitalist trickery aimed at concealing its actual vampire role in relation to the workers.

(3) You say that you (and other capitalists, of course) 'provide' jobs for the workers. We must say that this appears very noble and generous of the capitalist class were it not for the fact that if as a class they did not employ workers, they would rapidly cease to be capitalists and capitalism as a system would as rapidly disappear.

It is also necessary to add that capitalism is marked throughout its history by unemployment. The social ownership of the means of production under a fully socialist system is precisely the thing which is necessary in order to provide employment for all those capable of working. Besides this, with no owning class to appropriate the bulk of the wealth produced by society, it becomes possible to realise in practice a continued rise in the living standards of the great mass of the working people.

(4) As to your claim that capitalism is, in effect, eternal, our answer is that historical science already shows us that capitalism as a ruling social system is only three centuries old.

Far from being eternal (a central myth of bourgeois economics) it is, as we have seen, a historically transient social and economic system. Already it has once been pushed off the scene by socialism in a substantial part of the world. Its internal contradictions are preparing its disappearance from the world of the future, permanently.

Self-study questions on Part II

1. What is price, and why do prices differ from values?

2. Why does the Law of Value operate as a regulator of production?

3. What is the distinction between labour and labour power, and why is understanding this necessary to understanding surplus value?

4. What is surplus value? In what branch of the economy does it originate, and why?

5. Why does the secret of capitalist expansion of production lie in surplus value?

6. Capitalists use both forms of absolute and relative surplus value to obtain greater quantities of it. Discuss these forms and consider their use in New Zealand at the present time.

7. Discuss the inevitability of economic crises (depressions and recessions) under capitalism. How do the contradictions of capitalism generate these?

8. How does the extraction of surplus value in agriculture (i.e., ground rent) differ from that in industry? What is the 'classical' type of capitalist farming, and why do conditions in New Zealand differ from those in Britain and Europe?

9. Discuss what you understand by 'socialism' . Even in today's world, Marxist-Leninists consider socialism inevitable. Why is this?

NOTES

(1) Marx: 'Capital', Vol.1. Moscow, 1954 edition, p43.

(2) Engels: ‘Anti-Duhring, Part 3, Section 4: Distribution’. Progress Publishers, 1977 printing, p130.

(3) Ibid. Part 3, Section 4: Distribution, p378.

(4) Lenin: ‘Karl Marx’ pp27-28. Foreign Languages Press, Peking, 1970, pp27-28.

(5) Lenin: Ibid, p25.

(6) New Zealand Yearbook 1973, p399.

(7) Marx: ‘Class Struggles in France 1848-1850’. Foreign Languages Publishing House, Moscow, 1951, Vol.1, p198.

* In modern, technically advanced capitalist Japan the ‘Karoshi’ syndrome is estimated in official labour statistics to cause the premature death of 30,000 workers annually. Karoshi is the name given to the practice used by big employers of compelling workers to work at maximum intensity for long hours every week.

BOOKS FOR FURTHER STUDY

Marx: Capital, vol. 1, Value, Price & Profit (Pamphlet). Wage Labour & Capital (Pamphlet).

Engels: Socialism, Utopian & Scientific. Anti-Duhring. Part 2: Political Economy.

Lenin: ‘Karl Marx’ Section 2: ‘Marx’s Economic Doctrine’ (pamphlet; also in Coll. Wks.) ‘What the Friends of the People Are, part 3.’ In Coll. Wks. Vol 1, in some Sel. Wks, also pamphlet.

‘A Characterisation of Economic Romanticism.’ Coll. Wks. Vol 2. Also as pamphlet.

Note to ‘Books for Further Study’

If one hopes to master Political Economy then it is necessary to study ‘Capital’. Those who do master it - particularly the three volumes - possess a

powerful weapon in the class struggle. Lenin, who knew the three volumes thoroughly, mastered Volume I at the age of 15 , and constantly returned to it. Of course, it has to be studied, not just read. Marx himself wrote two popular pamphlets introducing some of his basic ideas; they are: ‘Value, Price and Profit’, (also known as ‘Wages, Price and Profit’), and ‘Wage Labour and Capital.’ Both are helpful. Engels’ chapters on Political Economy in ‘Anti-Duhring’ should certainly be read. ‘Capital’ is not easy reading for today’s workers. However, many 19th century workers were well-acquainted with it; so much so that it was known as ‘the Bible of the working class’. The difficulties lie in the unfamiliar terminology and the fact that the hardest chapters are at the beginning. Marx himself advised a beginner to start with the sections on the ‘Working Day’, (part 3, chapter 10), ‘Co-operation’, also ‘Division of Labour and Machinery’ (part 4, chapters 13 to 15), and finally on ‘Primitive Accumulation’, (part 8, chapters 26 to 32). Nevertheless, one must eventually come back and start at
page 1.

The ‘Introduction’ given here is of the simplest. Readers may be able to go straight from this to ‘Capital’. One has to be careful about short textbooks of Political Economy, particularly Soviet ones which are strongly tinged with revisionism. However, keeping that in mind they may provide helpful introductions in grasping terminology and some leading ideas.

As can be seen, Political Economy is a big subject. It is also a science, and must be studied and thought about like one. ‘Capital’ is its great classic. If you possess a copy of the ‘Correspondence of Marx and Engels’ you will also find many letters clarifying particular points. Also, other writings of Marx and Engels on the subject can be found in the two-volume edition of their ‘Selected Works’.