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workers of the world unite!

C.O.B.I.

INFLATION, CLASS STRUGGLE AND SCIENTIFIC COMMUNISM

For a number of years past (and at the present time) the English working-class movement has been hopelessly describing a narrow circle of strikes for higher wages and shorter hours, not, however, as an expedient or means of propaganda and organisation but as the ultimate aim. The Trade Unions even bar all political action on principle and in their charters, and thereby also ban participation in any general activity of the working class as a class. The workers are divided politically into Conservatives and Liberal Radicals... one can speak here of a labour movement (proper) only in so far as strikes take place here which,whether they are won or not, do not get the movement one step further. To inflate such strikes--which often enough have been brought about purposely during the last few years of bad business by the capitalists to have a pretext for closing down their factories and mills, strikes in which the working-class movement does not make the slightest headway - into struggles of world importance, as is done, for instance,in the London Freiheit , can, in my opinion, only do harm. No attempt should be made to conceal the fact that at present no real labour movement in the continental sense exists here, and I therefore believe you will not lose much if for the time being you do not receive any reports on the doings of the Trade Unions here.

Engels to Bernstein, 17. 6. 79.

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INTRODUCTION

The communist movement in Britain has generally and historically been marked by contempt for Marxist theory. At no stage has it been able to base its politics upon a comprehensively scientific analysis of British capitalism. Nature abhors a vacuum, so with the absence of Marxism, bourgeois ideology in various forms has rushed in.

In certain areas, particularly the question of the state, the anti-revisionist movement has recognised and attempted to criticise the incursion of bourgeois ideology. But even here no comprehensive analysis of base/superstructure inter-relations has been achieved (through lack of inclination and lack of knowledge).

A specific and current instance of the failure to concretely apply and elucidate Marxist theory is the question of inflation. On this issue the revisionists, and unfortunately almost all anti-revisionists, have failed to escape the confines of bourgeois thought.

One of the chief bourgeois explanations of inflation is known as the cost-plus theory. This theory comes in two versions — 'left' and right — which superficially appear as polar opposites, but which rest upon identical and false theoretical foundations. The 'left' version, which belongs to the category of petit-bourgeois criticism of monopoly capitalism, has been widely adopted by the Left in this country, and has received expression in 'Struggle' (CFB) amongst other papers. It states that inflation is the result of monopoly capitalists deliberately raising prices. The rightist version of the theory features prominently in the speeches of bourgeois politicians of various brands. It attributes price increases and much of the poor economic performance of Britain to "excessive wage increases" won by the working class.

As neither is founded in scientific political economy, this essay attempts to demonstrate the inadequacies of these explanations and attempts to show that inflation is the specific form in which the contradictions of capitalist accumulation and the economic class struggle express themselves in the period of state monopoly capital.

It then proceeds to derive and summarise the inter-relations of base and superstructure, drawing explicitly political conclusions therefrom.

MONEY AND PRICES

Inflation as it presents itself is a mysterious phenomenon ripe for mystic interpretation by vulgar economy. One week a £1 note will exchange in the shops for ten loaves, the next week for nine and the week after for eight.

The mystery lies not only in the fact that the amount of bread that £1 purchases decreases, but further, that bread and a sheet of paper with green lines upon it should exchange for one another. And many other goods can be purchased for £1. At any one time the quantities of different goods purchasable per £1 note stands in some definite ratio.

In themselves, purchases, sales and prices are absurd and inexplicable. Through their prices 1lb of butter and 6 eggs may be rendered equal to one another, though they are manifestly distinct in nature and use. Marxist political economy terms the quantity of commodity A which will exchange for a unit of commodity B, the exchange value of B. Thus 12 dozen eggs or 2 loaves might be the exchange value of 1lb of butter. For any commodity has as many exchange values as there are other commodities; so it can be equated with a definite quantity of any other inhabitant of the world of exchangeable commodities.

Insofar as the fact of existence of exchange value does not explain itself, but on the contrary seems a contradiction in terms, we must examine it before looking at inflation.

The contradiction of exchange values is that exchange renders equal objects which differ in natural form. This is possible because exchange value is an unnatural attribute, not a property of a commodity as a particular material object, but rather an attribute with which it is endowed by the social and technical conditions of the society in which it is produced.

The first presupposition of exchange value is value. Value exists wherever labour is social rather than private, wherever the product of labour is not wholly destined for the consumption of the immediate producer. The value of a product is then the quantity of labour which society must directly and indirectly devote to its production. That is to say, it is equal to the labour directly expended in the object's production in addition to the labour embodied in raw materials, plus that portion of the value of the instruments of production (i.e. tools, machines) used up in the production process.

When we speak of the quantity of labour that society <u>must expend</u>, we mean the average quantity, having in mind the

existing technical conditions of production. The values of products are thus properties of the <u>technical conditions of social production</u>, of the degree of development of the forces of social production.

The existence of social production, and thus of value, does not of itself suffice to engender exchange value. The great works of the slave societies of antiquity are results of social production requiring the expenditure of definite large quantities of social labour; they were thus values. They were never, however, exchange values. For value is always a hidden relation of production — it can never directly appear as an aspect of the product. This follows from the nature of value; labour embodied in production vanishes whilst transforming the object of labour (raw material, land, etc.) into the finished product. In those societies, however, where social production is combined with generalised private appropriation, value is indirectly manifested, for this combination gives rise to exchange value; and "the law of value ... only begins to develop itself freely on the basis of capitalist production." (Capital Vol.I, p. 587, Kerr). In capitalist society, social relations other than value relations enter into the quantitative determination of exchange value. These relations will be examined later; meanwhile they will be ignored for expositional purposes.

Exchange value is possible because both poles of the exchange relation are values. Butter and eggs are equally values, both requiring the expenditure of social labour in their production; in this sense they are equivalent. In the exchange relation one commodity expresses its value in the material form or use value of a second commodity. The fact that value must be expressed indirectly in the form of another commodity's use value, follows from the impossibility of direct expression of value:

"To begin with, an estimate of the values of commodities, for instance in terms of money, can obviously only be the result of their exchange." (Capital Vol. III, p.174, Moscow).

"Money, like every other commodity, cannot express the magnitude of its value except relatively in other commodities." (Vol. I, p.104, Kerr).

? The possibility of equating distinct use values arises when they are commonly products of social labour.

The quantitative ratio in which they exchange is determined by the ratios of their values. Thus if 1lb of butter requires 30 minutes social labour, and one egg requires five minutes social labour, then the exchange value of 1lb of butter = 6 eggs. Thus one commodity can express its value in a definite quantity of any other commodity — so long as both are products of equal amounts of social labour. Thus:

THE GENERAL FORM

1 ton iron	=	1 cwt copper or 1lb silver or 1 oz gold or 2 sheep or etc., etc.

We can equally have the inverse relation:

UNIVERSAL EQUIVALENT FORM

1 cwt copper 1lb silver 1 oz gold 2 sheep etc., etc.	=	1 ton iron

Immediately above, all commodities have expressed their values in one commodity (iron) equivalent to all of them. By thus setting aside one commodity as the universal equivalent, the comparative values of commodities relative to each other may be expressed in terms of this universal standard.

This relation, while revealing comparative values, does not permit the discovery of absolute values. For if the values of copper and iron both double, the exchange values remain unchanged, since 1 cwt of copper will still have the same value as 1 ton of iron.

The possibility of a universal equivalent form of representation of value, is inherent in the operation of exchange value, but is in itself a purely formal or ideal relation. For it to be realised in operation, the universal equivalent commodity must be set aside from other commodities by social practice. It must become the "reserved" or "excluded" commodity whose importance is due to the fact that it performs this function above any consideration of its use value in manufacture or in consumption.

"These commodities (gold and silver) performing the function of money do not enter either into productive or into individual consumption. They represent social labour fixed in a form in which it may serve as a mere circulation machine." (Capital Vol.II, p.154, Kerr).

This setting aside should not be interpreted idealistically as a convention or specific "agreement". Where commodity exchange is limited or assumes the form of

occasional barter, as between tribes, some pre-existing standard of wealth determined by the mode of production and ideological structure of the society — such as cattle — can serve as universal equivalent. In such an economy where exchange is the exception, and exchange assumes the form of barter, the particular material incarnation of the universal equivalent will inhere in the most significant form of social wealth, e.g. in a pastoral society cattle or sheep would perform this function. So we would have the expression: one wife = two cows or ten sheep; or one sheep = one pig = 1/5th of a cow.

As production moves away from the exchange of surpluses with production increasingly orientated towards the exchange process itself (a process which develops first between, and then within, tribes), so wealth is increasingly "tokenised"; i.e. something that is not itself wealth comes to represent the universal equivalent. Social wealth can be represented in the form of some much more convenient object which will facilitate commodity circulation and hence production.

Money then, develops through various intermediate forms (cowrie shells, bracelets, etc.) before the form of the precious metals (at first allmetals are precious, but as all except gold and silver become relatively plentiful the latter are experientially arrived at as 'precious').

Barter develops thus into commodity circulation, and with commodity circulation the universal equivalent, the excluded commodity, develops into money; and "price, in its general meaning, is but value in the form of money". (Capital Vol.III, p. 193, Moscow).

Commodity circulation is a necessary effect of the expansion of exchange economy — of production intended for exchange, not direct consumption by the producer. So here we can define a commodity: it is some use value produced, by isolated individuals or groups, with exchange and not consumption in mind. The essential corollary of this is the market — the enabling and restraining area of social control of production. Products which cannot consistently exchange in the market are not commodities — they have no 'value'. Therefore it can be said that commodities are use values intended for the market. The market is the social mediating process between isolated producers. This is a social (i.e. individualised as opposed to collective) isolation.

"Only such products can become commodities with regard to each other, as result from different kinds of labour, each being carried on independently and for the account of private individuals." (Vol. I, p.49, Kerr).

"... in fact, it is only on the basis of capitalistic production that products take the general and predominant form of commodities..." (Vol. I, p. 639).

"In order that capital may be able to arise and take control of production, a definite stage in the development of commerce must precede. This includes the circulation of commodities, and therefore also the production of commodities; for no articles can enter circulation in the form of commodities, unless they are manufactured for sale, and intended for commerce. But the production of commodities does not become the normal mode of production, until it finds as its basis the capitalist system of production." (Vol. II, p. 40, Kerr)

"This result becomes inevitable, as soon as labour power is sold as a commodity by the 'free' labourer himself. It is from that time on that the production of commodities becomes universal and a typical form of production. Henceforth every product is intended at the outset for sale, and all produced wealth passes through the circulation (process). The production of commodities does not impose itself upon the whole society, until wage labour becomes its basis. And only then does it unfold all its powers." (Vol. I, p.643).

Barter exchange only occurs if two commodity owners both want the commodity owned by the other, which sets narrow limits upon possible exchanges. Generalised exchange requires a medium of circulation, for which a commodity owner can sell his commodity and with which he is able to purchase other commodities separated from his in time and/or space.

When one commodity comes to function as the medium of circulation, it also assumes the role of universal equivalent. The fusion of universal equivalent form, with the medium of circulation, engenders the money form. As the universal equivalent, money is both the measure of value and the standard of price.

It is a measure of value by virtue of being the socially established incarnation of labour time.
It is a standard of price insofar as it is a definite weight of the universal equivalent commodity.

As a measure of value it expresses the relative values of commodities as prices, in the form of imaginary quantities of the universal equivalent containing the same labour time as the commodity being measured. As standard of price it measures quantities of the universal equivalent in terms of some standard of weight.

We have said that value, as a social relation, can never be directly manifest: it must be represented in the form of exchange value. Price, value expressed as exchange value in terms of money, retains all the contradictions

of exchange value. Value itself is an aspect of the conditions of social production and cannot change without these conditions changing; without some increase or diminution in the productive power of social labour. Price, can and does frequently change without a change in values. Being a more or less accidental relation between two commodities, the money form already allows of the possibility for divergence between the relative prices and their relative values. It also permits the possibility of changes in absolute prices (i.e. price levels) without changes in absolute values. Therefore whilst the basis for the existence of price is firstly value, i.e. social labour; and secondly, exchange between private appropriators — once brought into being price can also reflect other social relations. For instance land, though possessing no value (as it is produced by no man) has a price; and the social relations which give rise to this price of land are explained in Capital Vols III and IV.

Inflation in its exoteric notion presents itself to us as a general rise in commodity prices, for such a notion corresponds to empirical phenomena of the capitalist economy. The task of political economy is to discover the social relations which engender these phenomena. Analysis of the price form reveals it to derive from two sets of relations — value relations and relations governing the representation of those values in the shape of prices. Inflation must thus be analysed in terms of these two sets of relations.

In addition to being a measure of value and standard of price, money is the medium of exchange. As such it enables a mass of commodities of a given price to be transformed into any other set of commodities having the same price. Considered in itself such a movement conserves values, neither increasing nor decreasing them. The commodity owner enters the market with commodities of a given value (so much crystallised socially necessary labour time), and exchanges them for their value equivalent in money. This phase is conventionally signified as C-M, indicating the metamorphosis of a given value from the commodity state to the money state.

The second phase of commodity circulation is the purchase of new commodities with the money thus realised. This concluding phase is signified by M-C. The unity of the two phases is signified by C-M-C; i.e. the transactions are now seen as one process where the value starts as commodity, pupates as money and emerges from its metamorphosis as commodity once more — but a commodity whose use value has been transformed. Considered in terms of value it is a circuit, whereas from the side of use values it is a linear movement from one use value to another.

Each phase is at the same time both sale and purchase, but for any one value, the act of sale and purchase are distinct antithetical aspects whose unity is the circuit. There is no sale without a purchase — the C-M of one value is the M-C of another. In this way the circuits of different values are interdependent. On the other hand a value passing through phase one is not constrained in the same way to pass through the second phase, thus completing the circuit. C-M-C is the unity of opposites but the opposite poles are potentially separable. Insofar as the separability is realised with the value resting in the shape of money, the very interdependence of the circuits of different values results in a breakdown of the translation process. Insofar as value rests in the money form, money itself ceases to act as the medium of circulation and so interrupts the process of circulation.

The potential contradiction in the form C-M-C, expresses the contradiction between the two conditions of existence of commodity production: social labour and private appropriation.

The commodity enters the market as the real result of the private appropriation of nature through labour, and in order that this labour may qualify as social, the commodity must realise its price. Whilst the commodity must be converted into money, the latter need not immediately be reconverted into a commodity. Inasmuch then, as C-M and M-C separate, value remains as money, i.e. money assumes the form of a store of value. Money as a store of value is the antithesis of money as means of circulation.

Money is thus: a measure of value, a standard of price, a medium of circulation and a store of value. These aspects determine its material incarnation, which is pre-eminently gold or silver. This is due to their great scarcity value in terms of the amount of labour socially necessary for their extraction; so the actual amount required in order to effect circulation is physically small. Their great density and resistence to corrosion makes them a good permanent store of value. Their low melting point and malleability make them easy to mould into coin. Possessing all these attributes, particularly that of inertness, makes gold easy to extract with the most primitive technology.

Gold then, can serve as the money substance because it is itself a value and a commodity, and any commodity can potentially serve as the universal equivalent. Its selection as universal equivalent from among all other commodities, derives from its properties rendering it suitable to be a medium of exchange and store of value. Adopted as money it must still be produced as a commodity. Originating as a commodity, it is (where

money is uncoined gold) simultaneously money. It thus derives from other commodities, in that it enters circulation with the phase M-C; it purchases without selling.

We have so far derived the concept of money from the development of the forms of exchange value and the needs of commodity circulation. Commodity circulation as a process of exchange of equivalent values requires a measure of value and a medium of exchange, from which two needs the other aspects of money as standard of price and store of value necessarily follow. These then are necessary determinations of money given commodity circulation; commodity circulation cannot occur without the existence of such a money. The determination of money as being gold, however, differs from the other determinations. We said that gold and silver were pre-eminently suited to act as money by virtue of their properties (density, scarcity, great value, etc.*): this is true only upon the assumption that the only relation entering into the determination of the money substance was that of exchange of equivalent values. This assumption amounts to considering commodity circulation in abstraction from the totality of the economy in which exchange takes place. In fact commodity circulation always occurs in a real economy, which moreover is a combination of one or more modes of production.

Now a mode of production implies the production of goods or use values and simultaneously the reproduction of both the technical and social relations of production. Commodity circulation stems from, and is an integral part of, the reproduction, both technical and social, of one or more modes of production. The validity of considering commodity circulation in isolation from the mode(s) of production which engender(s) it, is that this enables us to examine the formal properties of circulation as such. Social production and private appropriation are necessary and sufficient conditions for commodity circulation to exist and to determine the various forms of exchange value circulating in money. On the other hand

*Properties and reactions of gold:-
Soft, lustrous, yellow metal; melting point 1063°C; specific gravity 19.3; ductile, malleable, good conductor of heat and electricity. Being low in electro-chemical series not affected by air or water nor any single mineral acid.
Silver:-
Lustrous, white, very ductile; melting point 960°C. Specific gravity 10.5; best conductor of heat and electricity known. Not attacked by air or moisture at room temperature. Tarnishes in presence of sulphur compounds, going to the sulphide.

abstracting from the mode of production we cannot derive anything more than forms — we cannot derive the specific content of these forms. Concretely, without an analysis of the mode of production and its social relations, we cannot discover the laws governing the quantitative magnitude of absolute and relative prices, nor the meaning of such expressions as the price of land or of borrowing (interest).

As a result of this digression we can now continue the analysis of the substance of money. In fact the concept of money derived from the analysis of exchange value itself, shows the necessity of going beyond the minimum relations presupposed by mere commodity circulation. One attribute of money that we identified was that of standard of price. Taking only value relations into account this implies that the standard of price is some definite quantity of the universal equivalent — some standard weight of gold. Commodity circulation requires the creation of pieces of gold of standard weight, but does not in itself provide the mechanism for their creation. Commodity exchange takes place between individual commodity owners, but the standard of price must have social as opposed to individual validity. From whence does this come?

A condition of existence of commodity circulation is the existence of some social surplus product. But this is simultaneously the condition of possibility for exploitation and thus of class society, which itself implies irreconcilable antagonism and class struggle. The perpetuation of the dominance of an exploiting class requires the existence of a political and ideological superstructure in the form of a state. It is only the state which can establish and enforce a standard of price. The state can establish a standard of price, but why should it do so?

We should remember that it is only with the establishment of the specifically bourgeois state that the ruling class itself is directly dependent upon the smooth operation of commodity circulation. In general it cannot be assumed that the state has a central priority of ensuring free and uninterrupted commodity circulation.

The key to the problem is to be found in the first state monies. The first state money was coin issued in the kingdom of Lydia in the 7th century B.C. They took the form of ingots stamped with the royal seal. The ingots' weight was standardised to a remarkably high level of accuracy, the mean deviation being only 0.85%. All of this would seem to correspond to what one would expect from examining the needs of commodity circulation; however, there was one feature of the ingots which would seem to give the lie to their other

characteristics — they are made of gold/silver alloy and not pure gold. Moreover, the percentage of gold which they contained was subject to great variation, ranging from a maximum of 55% to a minimum of 31%. Thus the values of the individual coins varies greatly. As they were issued prior to the discovery of Archimedes' principle, there was however no way in which the users of the coins could discover their gold content. The only conclusion we can draw is that the state deliberately issued a debased coin. As these were the first coin issued there must have been some method by which the old medium of circulation (gold) could exchange for the new (alloy coins). Merchants handed in gold and were given coin to the same weight, but the coin contained less gold. The surplus gold then accrued to the state as a tax upon the issue of money.

Here we see a new function of money, to serve as state revenue, a function which arises simultaneously with coinage. With metallic coinage there are two ways in which this may occur; the mint charge and debasement. A minting charge enables the state to raise revenue even when it issues pure gold or silver coin. Assume the coin to be pure silver and assume each weighs 5 grams. Thus 200 coins weigh one kilogram. Suppose a silver producer wishes to convert his silver into money; he takes it to the mint and is given in return coin. But for each kilo of silver he receives less than 200 coin, say 150. The mint thus retains 250 grams of silver, some of which goes towards the cost of minting. Suppose 50 grams are the equivalent of the cost of minting, the state thus raises a revenue of 200 grams. The state minting charge is what determines the exchange value of silver bullion in terms of minted silver. In this case, 1 kilo of bullion thus has an exchange value of 750 grams of silver coin. If coin contains 5 grams of silver this also determines the price of silver; i.e. 150 coin per kilo of unminted silver.

When there exists a minting charge it is no longer necessary for the coins to have a uniform metallic standard. For instance, if a standard coin is 5 grams a 25% minting charge as above allows coins of metallic values between 5 grams and 3.75 grams to circulate alongside one another as equivalents. If the silver content falls below 3.75 grams, then the standard coins will have a silver content whose price exceeds their face value. For instance if the mint reduced the silver content of its coin to 3 grams whilst still issuing 750 grams of minted silver for every kilogram of bullion, it would become profitable to melt down the old 5 gram coin. 200 5 gram coin weigh 1 kilo, but in return one could obtain from the mint 750 gram of 3 gram coin = 250 coin. Now since coin not silver are the standard of price, a profit of 50 coin can be made through melting down old coin. The mint charge thus sets a lower limit to the silver content possible, without resulting in melting down coin.

In conclusion to this section on money and prices, we can say that the price form arises out of the needs of developed commodity exchange, and that it necessarily entails the existence of money. From a very early period, money in the state money form (initially coin) takes on the function of being a source of state revenue. The developed exchange of commodities requires the money form, so that the existence of money and prices is contingent upon an economy which engenders commodity exchange. The establishment of money however devolves upon the state. Thus whilst commodity values are the result merely of the social division of labour, commodity prices are the expression not only of value relations but also of political relations i.e. of superstructural/class relations.

CAPITALIST EXPLOITATION.

In capitalist society the means of production are concentrated in the hands of the capitalist class. The working class, lacking the means of production, can survive only by selling the one commodity that can be produced without means of production — labour power.* Labour power is the ability to labour and its value, like that of any other commodity, is determined by the labour necessary for its own production and reproduction; that is to say, its value is equal to the value of the means of subsistence consumed by the labourer and his family. Its value is thus susceptible to variation for two reasons. First, the physical quantity of the bundle of commodities which make up the means of subsistence may change without the value of any commodity changing. For instance, if the weekly consumption of meat by workers' families declines whilst there is no compensating increase in the con consumption of any other commodity, and if at the same time there is no change in the values of any commodities, then we can say that the value of labour power has declined. Secondly, without there being any alteration in the physical consumption of commodities, the values of these commodities may change, for example, through lower wheat, and therefore bread, prices. Thus, the value of labour power varies according to the standard of life of the labourers (in the context of activity rate and climatic demands) and the production techniques in the industries which contribute to the supply of workers' subsistence goods.

*Proletarian: from "proles", the Latin for offspring — what the Plebeans in Rome had as their only "property" — their sole "means of production", themselves!

The value which labourers add per day to the means of production*, in transforming them into finished products, is equal to the number of hours worked each day — the length of the working day. In capitalist society production only takes place on the condition that the working class has sold its labour power to the capitalist class. Once a capitalist has purchased a worker's labour power he, like any purchaser of a commodity, is free to enjoy its use value. Consumption of the use value of labour power consists of getting the labourers to transform the means of production into finished products. In doing this the labourers add a working day's labour to the value of the means of production. The length of the working day is always greater than the value of labour power, so a part of the working day suffices to reproduce the value of the worker's means of subsistence. Thus the value added in the process of production exceeds the value of labour power, the workers produce a surplus value.

Because both the means of production and the labourers' labour power are by right of purchase the capitalist's property, so is the finished product. But the value of product exceeds by the amount of the surplus value, the value of the means of production + the labour power which he purchased, and so the value which he initially advanced has expanded by an amount equal to the difference between the length of the working day and value of labour power. It is this expansion of the original value that makes that original value not just value but capital. The only portion of the original value which has in reality expanded is that advanced in purchasing labour power; that which previously had the form of means of production is merely preserved in the end product. For this reason Marx calls the means of production constant capital as their value is merely passed on to the product; the labour power which the capitalist has purchased he calls variable capital, because it creates more value than that which it can itself command in the market (i.e. in wages).

"Just as the conversion of money, and of value in general, into capital is the constant result of capitalist production, so is its existence as capital its constant precondition. By its ability to be transformed into means of production it continually commands unpaid labour and thereby transforms the processes of production and circulation of commodities into the production of surplus value for its owner." (Vol III, p.379).

*Means of production: the combination of Instruments of Production — tools, machines; and Object of Labour — raw materials to be worked up with those instruments of labour. So individual means of production (a productive element) would for instance be a factory, farm, mine, etc. This is the physical form of constant capital.

This appropriation of surplus value by the capitalists in no way violates the laws of commodity exchange. The worker selling his labour power may receive from the capitalist its full value, but this does not prevent the capitalist appropriating the surplus value which the worker produces. It is precisely because the surplus value has its origin in the production process, and not in exchange, that its capitalistic appropriation is 'legitimate', i.e. does not violate the exchange of equivalent for equivalent. In fact the exploitation of the working class is a direct outcome of the exchange of equivalent values. It is therefore not at variance with, but fully encompassed by, bourgeois juridical notions of "right", "justice" and "equity". Therefore there is no basis either in base or superstructure for the petit-bourgeois/populist critique of capitalism for not being founded on "fair exchange of equal values". (c.f. Marx 'Poverty of Philosophy', Engels 'Anti-Duhring', and Engels 'Origin of Private Property, The Family and The State'.)

For what the capitalist purchases when he gives the worker a wage is not labour itself, but labour <u>power</u>; the full potential energy that can be extracted from the worker when set to work upon the capitalist's terms. These, of course, are terms of exploitation "freely" entered into; because the worker has previously (in historical terms) been "freed" of his individual means of subsistence (by e.g. enclosure and mechanisation), which have been accumulated in the hands of individual capitalists. So the worker is now "free" to work for this capitalist or starve.

SIMPLE REPRODUCTION.

If any mode of social production is to have more than a fleeting existence, it must reproduce its own preconditions of existence. This reproduction must have two aspects: reproduction of the technical conditions of production, and reproduction of the social conditions of production. In the following we examine the latter aspect only insofar as it is effected through the circulation process; the part played by political and ideological class struggle in the reproduction of capitalist social relations is for the moment ignored. Further, we initially consider only simple reproduction, that is to say, we consider the conditions necessary for reproduction, without extension or alteration of the social and technical conditions of production from one period to the next.

In examining simple reproduction one can chose any stage in the process as one's starting point, as all stages are both beginings and ends of an endless process. For the sake of convenience, however, we will start with the stage of production. Social production falls necessarily into two branches: production of the means

of production and production of articles of personal consumption; we will call these, following Marx, branches one and two respectively. For the sake of simplicity we will assume: the period of production of all commodities to be one week, that all commodities are sold over the weekend, and that all wages are paid at the end of the week in which production took place. All quantities are given in units of value (say one unit = 1 million man hours).

Let the value of means of production consumed each week be 3000, and further, let these be divided in the proportion 2000 to branch 1 and 1000 to branch 2 (of production). Let the total labour expended by the working class during the week be 1500 million hours — thus a value of 1500 is added to the means of production — let us say in proportion 1000 to branch 1 and 500 to branch 2. At the end of the week then, the capitalists of branch 1 have a stock of new means of production with a value of 3000, whilst those of branch 2 have a stock of new articles of consumption valued at 1500.

However, in order to have these commodities produced, the capitalist class has had to use the labour power of the working class for a period of one week, and by our assumption that wages are not paid until the end of that week, this has yet to be paid for. If we assume that the rate of exploitation is 100%, that is to say, that the value which the working class creates through its daily labour is equal to twice the value of its labour power, then the workers are due wages to the value of 750. Of those, 500 is due to the workers of branch 1, and 250 to the workers of branch 2. Now this value of 750 is equal to the value of the consumer goods necessary to maintain the working class, but workers <u>do not exchange their labour power directly with articles of consumption</u>; <u>they sell their ability to work in exchange for money</u>. So if they do not receive this money they are unable to purchase the articles of consumption necessary to their survival; i.e. are unable to secure their means of subsistence. Reproduction of the system thus requires that the capitalist class is capable of paying workers their wages in the form of money, and to do this they must have a stock of money equal in value to the weekly wages of the labourers that they employ. Thus capitalists of branch 1 must have a stock of money equal to 500 and the capitalists of branch 2 must have a stock of money equal to 250.

At the end of the week this is paid to the workers who use it to purchase articles of consumption. These transactions have provided the workers with the necessities for their survival during the following week, and have enabled the capitalists of branch 2 to convert 750 of the value which they held in the form of articles of consumption into the form of money. Of this money 250 goes to replace the fund from which wages are paid, leaving 500 free to be spent. Though this is free to be spent it cannot be spent freely, for if the capitalists of branch 2 are to continue in production in the following week they must replace the means of production used up in the preceding week. So this 500 in money must be used to purchase 500 in means of production from the capitalists of branch 1, thus enabling those to convert 500 of the value they had in the form of means of production into money. But the capitalists of branch 1 have to pay 500 in money wages each week;so that the 500 they receive from this sale must be set aside for their wage fund.

Whilst the wage funds in both branches have now been replenished and the workers have received their wage goods, the conditions of production themselves have not yet been reproduced, because branch 2 has not replenished its stock of means of production. To continue production on the same scale as before they require a further 500 of means of production. The capitalists of branch 1 , after selling 500 of means of production to branch 2, now have a stock of means of production to the value of 2500 which is 500 more than they themselves need to continue production. So the capitalists of branch 1 have the means of production that those of branch 2 require, but as they will not transfer these means of production free of charge to branch 2, the capitalists of branch 2 can only obtain the means of production that they require if they pay for them. The problem thus becomes, where do the capitalists of branch 2 obtain the money with which to replenish their stock of means of production.

The answer lies in the personal consumption of the capitalist class which has not yet been accounted for. Simple reproduction requires that the capitalists consume in its entirety the surplus value which they extort from the working class, rather than accumulating that surplus value as capital. Now the workers of branch 1 create a value of 1000 per week and their wages amount to only 500, so the capitalists appropriate a surplus value of 500. This 500, however, initially assumes the form of means of production which can't enter into the capitalists' personal consumption, whereas the articles of personal consumption which they require are in the hands of the capitalists of branch 2.

Although both sectors of the capitalist class have the commodities which the other desires, these cannot exchange directly one for the other, because as has already been said, generalised commodity exchange is only practicable if it takes the form of C-M-C; i.e. if it is effected through the medium of money. This means that if the two sectors of the capitalist class are to exchange their commodities some 500 of money must be thrown into circulation to effect this; i.e. capitalists

of branch 1 must have a personal consumption fund of 500 which they use to purchase articles of personal consumption from branch 2. With the revenue from this sale the capitalists of branch 2 now purchase the 500 of means of production which they need from branch 1. Conditions of production have now been reproduced; both branches now have the requisite means of production; the workers have consumption goods to keep them alive through the next week; and all money thrown into circulation has returned to its starting point.

We have ignored the circulation of the remaining means of production and articles of consumption within branches 1 and 2 respectively.

It should be noted that if the circulation process is to be able to carry out the reproduction of the conditions of production, a definite quantity of money must already be available in the hands of the capitalist class. In our example, the stock of money required was 1250; 750 for the payment of weekly wages and 500 for personal consumption of the capitalists of branch 1. The amount required would have been greater if we had taken into account the circulation of means of production between the various capitalists of branch 1 and also the circulation of articles of capitalist consumption between the capitalists of branch 2.

We saw that money, as a store of value, becomes capital when it is able and sufficient to take part in social production by buying labour power (variable capital) and the means of production (constant capital). The buying and setting in motion of these two linked components enables the value of capital to expand itself, i.e. at the end of a cycle the money coming back to the capitalist should have increased its amount, that is, realised surplus value (the unpaid portion of the worker worker's labour). This surplus can either be applied to expanding production still further (by buying extra "hands", machinery, raw materials) or consumed as extra revenue of the capitalist himself — or both if the surplus is split.

MONOPOLISTIC PRICE INCREASES AND GOLD MONEY.

Before dealing with the contradictions that the use of gold money holds in store for the development of capitalist production, it is now possible to look at the two explanations of inflation which have the greatest popular currency. These explanations appear as left and right variations on a similar theme. The left theory holds that inflation is caused by capitalists deliberately raising prices; the rightist theory, which is constantly trumpeted in the popular press holds that inflation is generated by 'excessive' wage increases that are necessarily passed on in the form of price increases.

Whilst these two explanations superficially seem diametrical opposites, they are in fact no more than the opposite sides of the one coin. They both rest upon the "cost-plus" theory of prices. This 'theory' of vulgar economy holds that prices are equal to the arithmetic sum of the various costs of production, these costs usually being reduced to wages, plus profits. The price is thus said to be equal to the wages that the capitalist has to pay for the production of a product plus a mark-up which he adds on before selling it. With this theory it is 'obvious' that an increase in either wages or profits must result in an increase in price. This is precisely the way that respectively the left and right accounts 'explain' inflation.

As opposed to vulgar economy, Marxist political economy shows price to be the representation of the value of a commodity in terms of money. Any change in price (at which supply and demand are equal) must thus originate from one or both of two sources; i.e. a change in the value of the commodity, or a change in the conditions governing the representation of value by price. Vulgar political economy on the other hand does not distinguish between values and prices; as far as it is concerned, values are prices. Because of this, vulgar explanations of inflation do not even consider the possibility of changes in the conditions governing the representation of value by price, so that in refuting the vulgar theories such changes can be temporarily ignored and relegated to later examination.

From the point of view of vulgar economy, to say that prices rise because profit margins are raised is equivalent to saying that values rise because profit margins rise. Values thus appear to be something totally arbitrary; something determined by the will of the capitalist selling the commodity, dependent only on how much he wishes to charge for it. The various petit-bourgeois theorists hold that this is a recent development. In the past it seems prices were fixed by some mysterious agency known as 'The Market', but that that golden age of competitive entrepreneurs is long since past, and in our iron age of mundane men the values of commodities are arbitrarily fixed by 'Souless Giant (Multinational)Corporations'. This is of course nonsense. Whilst it is true that the executives of big monopolies 'set' prices, in doing this they do no more than capitalists have always done, for capitalists have always set prices insofar as they have decided to sell at some particular price. But in making their "free" decisions about selling prices, all these capitalists, whether free competitors or monopolists, are acting as mere agents of capital and are therefore subject to the immanent laws of capitalist production. One of these key laws is that the value of a commodity is determined in the production process by the amount of labour time socially necessary for its

production, and not in the process of exchange. The cost-plus theory on the other hand holds that value is determined by the cost of production plus whatever the capitalist wants to add on when selling; in other words, it holds that surplus value has its origin in the exchange process.

Marx long ago demonstrated that this method of enrichment was impossible*, and that it was inherently contradictory to suppose that surplus value originates in exchange rather than in production. Whilst a commodity's price can serve as a measure of its value, this is not inherent within the price form (see the first part of this work). For instance, things such as land, virtue, etc. have a price but no value; and furthermore the assignment of a price to a commodity is prior to that commodity's alienation, a purely ideal operation. If I have a box of matches to sell, I may quote its price at any level I wish; I may assign it a price of £100 if I so desire, but by doing this I in no way guarantee that it will sell for that price. A commodity's ideal price and the price which it will realise in exchange are two very different things.

Even if the ideal price of a commodity is an accurate representation of its value (i.e. the price is equal to the ratio of the value of the commodity — the total socially necessary labour time it embodies — to the value of gold embodied in the unit of money)*,this ideal measurement of the commodity's value requires no actual money. If this ideal price is to be realised, however, the commodity must come face to face with a sum of (real, physical) money equal to the ideal price. If this is not possible then the realisation of the commodity's price is impossible. For instance, the price of all the material wealth in the U.K. could be measured in £s sterling, but the realisation of this price is not possible for there do not exist sufficient pounds for its purchase.

This is precisely the snag in those theories which attempt to explain price rises by the capitalists 'deciding' to sell at a higher price. The capitalists can mark prices up as much as they wish, but this signifies nothing if, as a class, they are unable to realise this elevated price in actual cash. Consider those capitalists who produce articles of workers' consumption: the price which they can realise for their commodities is limited by the money in the hands of the

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* See especially 'Capital', Vol I of which was published in 1867.

*"The prices of every specified quantity of a commodity are, so far as they correspond to the values, determined by the total quantity of labour incorporated in this commodity." (Vol III, p. 308).

adequate; and the rise and perpetuation of ideology would be incomprehensible. Scientific analysis of the laws governing exchange value enables one to understand both the movements of prices and also the material basis of ideologies such as cost-plus (c.f. Vol III, pp. 312-3)

The theory of value shows that, other things being equal, the value of a commodity is not altered by fluctuations in the wages of the workers who produce that commodity. On the other hand, in the real world there are innumerable examples of commodity prices rising after the workers who produce those commodities have received a wage increase. This would be a complete mystery if one thought that the labour theory of value entailed the prices of commodities being proportional to their values. But, as we pointed out earlier, Marxism does not identify value with exchange value. Exchange value is the mode of expression of value, it is a form. Like all forms it need not express only one content; and insofar as relations other than simple value relations are expressed in prices, then relative prices need not correspond to relative values in terms of magnitude. In fact the exchange of commodities in the ratios of their values would be fundamentally impossible under the capitalist mode of production.

The value of a commodity is equal to the constant capital expended in its production plus the socially necessary labour added to it in the process of production. Now the quantity of labour needed to set in motion a given mass of constant capital, depends not upon the value of that capital, but upon its use value. A lorry, for instance, is, if used by a haulage contractor, an item of constant capital. The use value of a lorry, i.e. its physical nature, determines that only one man is required to set it in motion. Whether that lorry's value be great or small it still requires only one driver. From one branch of industry to another the number of workers required to operate a given value of constant capital will vary. Now assume that the rate of exploitation does not differ between two industries, where say it equals 100%. If at the same time £1 million of constant capital in one industry requires 1000 workers with wages of £1000 per year each, whilst in the second industry £1 million of constant capital employs 100 workers also at £1000 per year; and if the rate of turnover of both constant and variable capital is in each instance 1 year — then the value of the product of the first industry would be £3 million per year, whereas that of the second would be £1,200,000 each year. Out of the £3 million produced by industry one, £1 million would be surplus value. In industry two £100,000 would be surplus value. Since the capital advanced in the first case was £2 million this industry would yield a rate of profit of 50% p.a. Since the capital advanced in the second case was £1,100,000 the rate of profit would be

nine and one eleventh per cent. per annum. If the product of the first industry actually sold for £3 million and that of the second industry for £1,200,000, then the two industries would yield drastically different profit rates. This would be a grossly unstable situation. Capital moves wherever it can get the highest profit; capital would thus remove from the second industry into the first. The inflow of capital into the first industry would result in an increase in supply from that industry, driving down prices.

The price of the output of industry one would fall until the rate of profit in that industry was equal to the rate in the second industry. Meanwhile of course the inverse process would be occuring in the other industry. The haemorrhage of capital would reduce supply and raise prices and profit rates. When the rates of profit in both branches were the same then the prices would be in equilibrium. This of course would happen between all the branches of the economy. It would result in the formation of an average rate of profit between the different branches of production. In some branches prices and profits would fall, in others they would rise, but overall rises would be counter-balanced by falls and vice versa.

No surplus value is created or destroyed in the formation of an average rate of profit: what occurs is a redistribution of surplus value between different capitals. Whilst the amount of surplus value produced by a capital depends on the number of workers it exploits, and the intensity with which it exploits them, the formation of average profit means that the profit which each capital receives depends only upon its mass (i.e. amount) in value terms. Equal masses of capital appropriate equal profits. The capitals which produce above average quantities of surplus value are those which use an above average ratio of living to dead labour, i.e. those in which the ratio of variable to constant capital is highest. Competition forces these capitals to surrender a portion of their surplus value, which then accrues to those capitals employing below average quantities of living labour. (Only living, current labour creates new values).

Prices in those branches with an above average proportion of variable capital fall, whilst those with below average proportions rise. This set of prices governed by the average rate of profit Marx calls Prices of Production. Their magnitude is determined according to the following system:-

Firstly, the capitalists are not aware of the values of their products; what they are aware of are the prices they pay for the elements of production, i.e. the Cost of Production or 'cost price'. Cost of Production, to the capitalist, is equal to the sum of the expended constant capital + the expended variable capital. This presents itself to the capitalist as the necessary or unavoidable cost of production. It differs, however, from the socially necessary cost of production in that the capitalist calculates in his cost only the paid labour time, whereas the cost of production to society as a whole includes both the paid and the unpaid labour. A commodity's value is its cost to society, its cost price is its cost to the capitalist class. To obtain the price of production of a commodity you add to the cost price the average rate of profit. Thus: price of production equals cost price + average profit.

WHAT WILL BE THE EFFECT OF WAGE RISES ON PRICES OF PRODUCTION?

Price of production = $(c+v)(1+p)$
where p = average rate of profit. Average profit, however, is merely the transmuted form of surplus value. A rise in wages will, other things being equal, reduce the rate of surplus value. The fall in surplus value means that there is less to be distributed around the capitalist class as profit. The average rate of profit thus falls. But the price of any one commodity is subject to opposing forces. On the one hand wages are rising raising the cost price (in v); on the other hand average profit is falling lowering the exponent $(1+p)$ by which cost price is to be raised. Rising wages thus tend to raise the price of production whilst the fall in profits that is a consequence of rising wages tends to lower prices of production. The question is: which tendency will predominate? Will prices rise or fall?

If we take all branches of production together it is evident that there can be no change in the level of prices of production. The rise in wages is the cause of the fall in profits. The total wage increase = the total profit decrease. Thus on average there will be no change in prices. The opposing forces will cancel out. When we look at individual branches of production or individual commodities, on the other hand, this no longer holds. For capitals of equal magnitude the decline in profits brought about by the fall in the average profit rate will be equal. Thus for capitals of equal turnover the falling rate of profit will exert an equal downward force on prices. On the opposing side we have the force of wage rises tending to raise prices. This force, however, is not equally exerted upon all capitals. The rise in cost price brought about by a wage rise is greatest for those capitals which contain the highest proportion of variable capital, and least for those with the highest proportion of constant capital. The prices of those commodities produced by capitals with a high proportion of variable capital thus rise relative to those with a high proportion of constant capital. For those commodities produced by

capitals of average composition the opposing forces cancel and prices remain constant.

Competition and the equalisation of profit rates thus gives rise to phenomena which appear directly to contradict the determination of value by labour time.
1) The profit which accrues to a capital depends solely upon its mass, and is independent of the quantity of labour power which that capital exploits; whereas the surplus value which a capital produces is independent of its mass and depends solely upon the extent to which it exploits labour power.
2) The rise and fall of wage rates produces rises and falls in prices of production. For those commodities which are produced with above average proportions of variable capital, a rise in wages induces a rise in prices. As opposed to this the determination of value by labour time shows that commodity values are unaffected by changes in wage rates.
3) The price of commodities seems to derive from the simple addition of three independent elements: constant capital expended, wages, and average profit. Thus when we neglect expended constant capital, the rise in exchange value during production or, as capitalist economics calls it, the value added, seems to derive from the simple addition of two forms of revenue. It appears that the addition of revenues is the source of value. The theory of value, on the other hand, holds that revenues are derived from value added, not vice versa. The expenditure of living labour is the sole source of value, and the value so produced is divided into the different forms of revenue — primarily under capitalism into wages and profits, but also interest and rent. Because what is entailed is a division of a fixed magnitude and not the addition of independent magnitudes, it follows that a rise in wage rates entails a fall in profit rates.

"We have seen that a general rise or fall in wages, by causing a movement of the general rate of profit in the opposite direction - other circumstances remaining the same - changes the price of production of the various commodities, i.e., raises some and lowers others, depending upon the average composition of capital in the respective spheres of production. Thus experience shows here that in some spheres of production at any rate, the average price of a commodity rises because wages have risen and falls because wages have fallen. But 'experience' (Marx's quotation marks) does not show that the value of commodities which is independent of wages secretly regulates these changes." (Vol III, p.868)

"Thus everything appears reversed in competition. The final pattern of economic relations seen on the surface, in their real existence and consequently in the conceptions by which the bearers and agents of these relations seek to understand them, is very much different from , and indeed quite the reverse of, their inner but concealed essential pattern and the conception corresponding to it." (Vol III, p.209).

Since the cost-plus theory is nothing other than the notion imposed upon the agents of capital by competition it is a totally inadequate basis for analysing the process of inflation.

GENERAL CONTRADICTIONS OF CAPITALIST ACCUMULATION.

Capital is simultaneously a mode of production of use values (material wealth) and a system of exploitation. It differs from all preceding forms of exploitation in its objectivity. The formation and expansion of individual capital is inherently competitive and contradictory -- a characteristic deriving from the anarchy of capitalism as a mode of production, rather than a simple expression of the will of the entrepreneur. The capitalist is thus the agent of his own capital -- the personification of it, for capital is a social category, which he both controls and is controlled by. The capitalist is objectively a function of his own capital.

The expansion of value that is capital's object can come about only through the appropriation of surplus labour. This appropriation takes two forms: the production of absolute and relative surplus value. The first, the production of absolute surplus value was historically the principal form of capitalist exploitation. Its basis is simple, consisting in extending the length of the working day over that time which is necessary for the production of consumption goods for the working class. The surplus labour thus extracted from the workers forms the absolute surplus value. The second principal historical form of capitalist exploitation, the production of relative surplus value, is more complex. It depends on the revolutionisation of the productive forces and harnessing the energies of social production. In this case the first capital to employ a new technique enjoys an advantage. The value of the product still depends on the quantity of labour required according to the old technique of production, since this is still the method generally employed. Thus the capital which employs the new method of production involving less labour is able to sell its commodities at their social value (which is determined by the exigencies of the old method of production), but above their private value (determined by the expenditure, direct and indirect, of labour in the new method). The difference between these constitutes the relative surplus value accruing to the user of new techniques. Insofar as the product enters into the consumption of the working class and insofar as the new technique receives generalised application, the value of the articles of workers' consumption falls. The resulting

fall in the value of labour power increases the surplus value accruing to the whole capitalist class. This is the relative surplus value appropriated by social capital as a result of the development of production. The production of relative surplus value is the social foundation for the development of the forces of production under capitalism.

The generalised application of new and more productive technologies results in a decline in the individual value of commodities. As a result of this, any capitals still dependent upon the old technology expend more labour than is socially necessary and as a result are able to appropriate less surplus value, or not able to appropriate any. As a result those capitals failing to revolutionise their forces of production cease to be able to exploit, and thus cease to be capital (c.f. the looms of the hand-loom weavers in the first half of the nineteenth century). As one of the main methods by which the productivity of labour can be augmented is by the application of more and more modern means of production, capitals to preserve their very existence are forced to aggregate means of production. Capital must accumulate or perish.

Insofar as surplus value accumulates as capital it can do so in two forms: variable capital and constant capital. Inasmuch as it accumulates as the latter this does not of itself provide a more extensive basis for exploitation, because of itself it does not necessarily increase the number of labourers employed. On the other hand it does provide a more intensive basis for exploitation by engendering surplus value. The consequential decline in the value of labour power means that the same mass of vaiable capital can purchase more labour power. There can thus result an increase in surplus value expropriated by the same mass of variable capital for two reasons -- firstly because more labour power is employed; and secondly because each labour power yields more surplus value. Thus the intensification of exploitation itself enables the extension of the base of exploitation without the latter entailing an accumulation of variable capital.

If the mass of variable capital remains constant, the accumulation of constant capital can lead to a rise or fall in the amount of surplus value expropriated by each unit of capital (i.e. difference in the rate of profit). If the value of labour power decreases more rapidly than the stock of constant capital increases, the rate of profit rises. If the value of labour power falls less rapidly than the stock of constant capital increases, then the rate of profit must fall, in the long run, though it may increase in the short run. (Proof of this is given in the mathematical appendix). However, and this is the important point, if the rate of profit is not to fall in the long run, then the employed labour force must rise as rapidly as the value of constant capital. Thus in the long run the limit to the rate of accumulation of constant capital is set by the rate of growth of the labour force.

Capital may accumulate also as variable capital. This fundamentally can come about in two ways: firstly the subordination of more labour to capital, i.e. an expansion of the labour force employed without any increase in the value of labour power; secondly it may come about through an increase in the value of labour power. In the first case, provided the length of the working day does not change, the rate of exploitation remains constant, but the employment of more workers leads to a rise in the mass of surplus value expropriated. In the second case, provided the working day does not change, the rate of exploitation must fall, leading, other things being equal, to a decline in the rate of profit.

Once again we see that the rate of growth of the labour force sets a limit ultimately to the production of surplus value. If variable capital accumulates more rapidly than the rate of growth in the labour force, then the rate of surplus value declines. If constant capital accumulates more rapidly than the growth of the labour force, then the rate of profit must fall. But if the rate of surplus value falls, so must (other things being equal) the rate of profit. Thus neither variable nor constant capital can accumulate more rapidly than the rate of growth of the labour force without leading to a decline in the rate of profit. If the labour force available for exploitation is not increasing, there exists an inevitable tendency for the rate of profit to fall and a strong tendency for the rate of exploitation to fall.

"The labour which is set in motion by the total capital of a society, day in, day out, may be regarded as a single collective working-day. If, e.g., the number of labourers is a million, and the average working-day of a labourer is 10 hours, the social working-day consists of ten million hours. With a given length of this working-day, whether its limits are fixed physically or socially, the mass of surplus-value can only be increased by increasing the number of labourers, i.e., of the labouring population. The growth of population here forms the mathematical limit to the production of surplus-value by the total social capital. On the contrary, with a given amount of population, this limit is formed by the possible lengthening of the working-day." (Vol I, p.336).

"Over-production of capital, not of individual commodities -- although over-production of capital always includes over-production of commodities -- is therefore simply over-accumulation of capital. To

appreciate what this over-accumulation is (its closer analysis follows later), one need only assume it to be absolute. When would over-production of capital be absolute? Over-production which would affect not just one or another, or a few important spheres of production, but would be absolute in its full scope, hence would extend to all fields of production?

"There would be over-production of capital as soon as additional capital for purposes of capitalist production = 0. The purpose of capitalist production, however, is self-expansion of capital, i.e., appropriation of surplus-labour, production of surplus-value, of profit. As soon as capital would, therefore, have grown in such a ratio to the labouring population that neither the absolute working-time supplied by this population, nor the relative surplus working-time, could be expanded any further (this last would not be feasible at any rate in the case when the demand for labour were so strong that there were a tendency for wages to rise); at a point, therefore, when the increased capital produced just as much, or even less, surplus-value than it did before its increase, there would be absolute over-production of capital; i.e., the increased capital C+ delta C would produce no more, or even less, profit than capital C before its expansion by delta C. In both cases there would be a steep and sudden fall in the general rate of profit, but this time due to a change in the composition of capital not caused by the development of the productive forces, but rather by a rise in the money-value of the variable capital (because of increased wages) and the corresponding reduction in the proportion of surplus-labour to necessary labour.

"In reality, it would appear that a portion of the capital would lie completely or partially idle (because it would have to crowd out some of the active capital before it could expand its own value), and the other portion would produce values at a lower rate of profit, owing to the pressure of unemployed or but partly employed capital. It would be immaterial in this respect if a part of the additional capital were to take the place of the old capital, and the latter were to take its position in the additional capital. We should still always have the old sum of capital on one side, and the sum of additional capital on the other. The fall in the rate of profit would then be accompanied by an absolute decrease in the mass of profit, since the mass of employed labour-power could not be increased and the rate of surplus-value raised under the conditions we had assumed, so that the mass of surplus-value could not be increased either. And the reduced mass of profit would have to be calculated on an increased total capital. But even if it is assumed that the employed capital continues to self-expand at the old rate of profit, and the mass of profit hence remains the same, this mass would still be calculated on an increased total capital, this likewise implying a fall in the rate of profit. If a total capital of 1,000 yielded a profit of 100, and after being increased to 1,500 still yielded 100, then, in the second case, 1,000 would yield only 66⅔. Self-expansion of the old capital, in the absolute sense, would have been reduced. The capital = 1,000 would yield no more under the new circumstances than formerly a capital = 666⅔." (Vol III, pp. 251-2).

"The identity of surplus-value and surplus-labour imposes a qualitative limit upon the accumulation of capital. This consists of the total working-day, and the prevailing development of the productive forces and of the population, which limits the number of simultaneously exploitable working-days." (Vol III, p.398)

This fall in the rate of exploitation is not dependent on the existence of trades unions, except inasmuch as they resist increasing the length of the working day necessary to compensate for that falling rate of profit.

ACCUMULATION AND THE MEDIUM OF CIRCULATION.

We have seen that the simple reproduction of the existing mass of social capital entails a definite circulation of commodities and that this in turn requires for its continuation a definite quantity of money. In the case of simple reproduction the value of social capital neither increases nor diminishes over time, because the entire surplus value produced by the proletariat is unproductively consumed by the capitalist class rather than being materialised as capital. But simple reproduction is a theoretical abstraction at odds with the real tendencies of capitalism. In fact, competition between capitals forces each capitalist to constantly improve and extend his stock of means of production and increase the scale of his production, or be forced out of the market. A portion of surplus value thus tends to be accumulated as capital, both constant and variable. For the moment we can ignore the implications that this has for the growth of the population of wage labourers, and for the rate of profit, in order to concentrate upon the effects that it has upon the medium of circulation.

Accumulation of capital tends to increase the total value of commodities in circulation, this occuring whether capital accumulates in the form of variable capital, constant capital, or both. The accumulation of variable capital implies that the total value of labour power purchased per week increases over time, and, as a result, the value of sales of articles of workers' consumption must rise. It is of course possible that the rise in the value of total social variable capital could be due solely to an increase in the value of

labour power unaccompanied by a rise either in the length of the working day or in the level of employment — in which case the rise in commodity circulation originating in the increase in variable capital would be counterbalanced by a fall in the quantity of surplus value produced; i.e. a portion of the value product, which had formerly taken on the shape of the material elements of surplus value (luxury goods, means of production, articles of workers' consumption, depending on the form of reproduction), is now reproduced as workers' consumption goods. This case excepted, accumulation of variable capital tends to increase the value of commodities in circulation. Constant capital can accumulate as fixed capital or circulating constant capital. The former includes means of production such as buildings, railway rolling stock, heavy machine tools etc., which persist through several production periods, yielding up in each only a fraction of their total value to the product. The latter includes items such as raw materials, seed corn, etc., which are entirely consumed in the production process, thereby passing on all their value to the product. Consider both examples. The first tends to increase the mass of commodities in circulation provided that the period of reproduction of fixed capital does not increase at a more rapid rate than does the total value of fixed capital: this follows from the fact that unless the aforementioned condition applies, the increase in the value of the stock of fixed capital entails an increase in the flow of value passed on by the fixed capital to the product, and this value must in its turn circulate. If surplus value is accumulated as circulating constant capital this obviously results in a direct increase in commodity circulation.

Thus we have it that capitalism constantly augments the value of commodities in circulation. This increase in commodity circulation involved in the reproduction of capital would, if the form of circulation remained the same, require a steady proportionate rise in the value of money in circulation.

We have up to now treated money as being composed of gold or silver coin; we mentioned the possibility of the state debasing these coins as a source of revenue. But the question of the debasement of the coin was considered only from the standpoint of the state. That in fact is the only standpoint from which debasement can be considered insofar as one is only examining circulation in general, i.e., abstracted from the mode of production. We must now examine the reasons specific to capitalism which lead to the abandoning of pure gold currency.

A pure metallic currency, (in the absence of minting charges) owes its capacity to represent the values of other commodities to it itself being a value. The value of such money arises because a portion of the labour of society has to be expended in its production. If the value of money remains constant, that is to say, if the quantity of labour required to produce the amount of gold in 1 guinea (for instance) remains constant, then an increase in the total value of money required for circulation implies an increase in the total quantity of money (number of guineas) in circulation. This increase can come about in two ways: either hoards which had up to then lain idle pass into circulation, or else more gold must be dug out of the ground and minted into coinage. The first process has obvious limitations. The second, whilst more practicable and flexible, entails the expenditure of labour. The product of this labour is not consumed but rather goes to add to the stock of gold in circulation. Since surplus value is the source of accumulation this implies that a portion of the surplus value appropriated by capital must be materialised in the form of gold. This reduces the quantity of surplus value which can be materialised as means of production or wage goods, thus narrowing the basis for the accumulation of productive capital. [The expansion of capitalist production engenders various additional costs of circulation which tend to reduce the potential expansion of production]. At the social scale this implies a portion of the labour force must be employed in the production of the money commodity, a commodity which cannot serve as means of production nor as means of support for productive labourers. This distribution of social labour is manifested to the individual capitals by the need to accumulate a portion of their surplus value in the form of a stock of money. There must also be increasing accounting costs just to keep track of this extra money with its more complex circuits.

To capital any stock of value is potential capital, i.e. is potentially self-expanding value. But value can only be made to expand through the purchase and productive consumption of labour power, through the exploitation of the working class. The money hoard which he is forced to accumulate appears to the individual capitalist as potential capital, as potentially productive surplus value. But the distribution of social labour, which this form of the medium of exchange forces under conditions of expanded reproduction, prevents the possibility of this value serving as capital. With this form of medium of exchange the extended reproduction of social capital generates costs of circulation which tend to limit the expansion of capital. This is the contradiction which finds its partial resolution in the development of the various forms of credit, paper and state monies.

RESOLUTION OF CONTRADICTIONS OF LOWER FORMS OF MONEY IN HIGHER FORMS.

Credit money originates in commercial credit, in the mutual advances and 'accomodations' of (originally merchant) capitalists. We have up to now touched upon money as measure of value, standard of price, medium of circulation and store of value. Credit is founded upon another aspect of money, money as a means of payment.

Consider two capitalists, a spinner and a weaver. The spinner wishes to sell yarn to the weaver. For this to come about directly the weaver must have the yarn's equivalent in money with which to purchase it, and on the basis of the analysis up to now the absence of this money would prohibit the sale. However, if the yarn once gets into the weaver's hands it can serve as part of his constant capital and thus absorb the necessary and surplus labour of his workers, and could thus be sold realising a profit.

Commercial credit consists in precisely such a transfer of commodities from the hands of one capital to another. For the first capital the commodities are the end result of production and as such embody the value and surplus value produced during the production process; being, however, the end result of production they cannot serve as constant capital for the first capital. For the second capital, however, the commodities can enter into production as constant capital. If the transfer of commodities from the possession of capital A to capital B is accompanied by a transfer of money from B to A, we have an ordinary sale. With this, the change of possession is simultaneously a change of ownership. But the change of ownership, a legal relation, is not necessary for the commodities to serve as constant capital, a production relation. Thus it is possible for the commodities to change hands without a transfer of money and thus without a change of legal ownership occuring. Instead of money, a bill of exchange or promise to pay passes from B to A when the commodities move from A to B; i.e. become the possession of B so that he can work upon them.

The effects of this are: the interpenetration of capitals and the elimination of money as means of exchange. What would previously have been part of the circuit of capital B now becomes an extension of that of capital A. The value of the commodities would previously have had to exist in the form of money in the hands of capital B; it now does so no longer, which means that his employed capital can be smaller. Secondly, the movement of commodities no longer presupposes an inverse and roughly simultaneous movement of money. At some later date money may move from B to A, but insofar as this occurs money acts not as a means of exchange but as a means of (re)payment of debt.

Whilst this simple form of commercial credit eliminates money as medium of exchange between A and B it does not eliminate money from the relations between either of these and other commodity owners. A must still purchase labour power and means of production if production is to continue. This implies that A must have a stock of money sufficient to purchase labour power and means of production until the debt of B to A is repaid. However, whereas formerly a stock of money equivalent to the value of the commodities would have had to exist in the hands of B, A needs only have a money stock equal to the cost of the commodities' production. That is to say, A's money stock would have to equal the constant and variable capital which went into the commodities (but not the surplus value which went into them). Thus we see that the extension of commercial credit between two capitals allows a sum of money equal to the surplus value content of the commodities to be dispensed with (though, of course, this entails a corresponding delay in the realisation of A's surplus value). Insofar as money equal to the cost of production must pre-exist in the hands of the creditor, commercial credit in its elementary form fails to resolve the contradiction inherent for capital in any commodity money: it is 'dead' but indispensable capital.

This contradiction can only be resolved through the development from commercial credit of qualitatively new forms of money. This initially takes the form of monetisation of the bills of exchange, which occurs when the capitalist who initially receives such a bill uses it in his turn as a means of exchange for the purchase of commodities, thus enabling him to replenish his stock of commodity capital and complete the circuit of his capital without the intervention of money. The bill of exchange when issued does not constitute a means of circulation; it is only with its second use, i.e. its use by its original recipient, that quantity passes over into quality and what was initially credit becomes a means of circulation. Such monetised bills of exchange, whilst they are equally able to serve as a medium of exchange, differ from a commodity-money (such as gold) in that they themselves have no value. As such these bills do not require the allocation of social labour to their production (which as we saw was the ground for the contradiction between capital and commodity monies), since they exist in a form that costs very little to produce, i.e. paper.

Whilst commercial credit originated in the operation of merchant capital, with the development of capitalist production it extended its sway to the relations between merchant capital and productive capital and to the interrelations between productive capitals. The currency of bills of exchange among capitals and their neutralisation of each other through the mutual balancing of claims, means that in transactions between

capitalists gold money is increasingly displaced as the medium of exchange, to be relegated to the role of a mere means of payment used to square outstanding debts. However, as commercial credit of this type does not initially come into operation in the relations between capital and the working class, the capitalist class must have a stock of gold money to provide for wage payments. Further, the extension of credit between capitals can only continue provided the circulation of commodities does not falter, for debtors must be able to pay their creditors in money when the bills of exchange fall due. But debtors can only do this if either their own debtors repay them, or if they succeed in selling commodities directly for money. Clearly the former cancels between different debtors so that the edifice of credit depends in the last resort upon the latter, itself dependent upon the smooth continuation of commodity circulation. Any interruption in the circulation of commodities can thus induce a chain reaction of debts defaulted upon.

We have up to now treated economic phenomena as if they were the result of purely economic forces. This is not in fact the case, for all the above economic relations presuppose for their continuation some definite system of legal relations, a political superstructure — in a word, a state. This becomes of particular importance in the case of credit economy. This presupposes some legally recognised unit of money for the payment of debts, that is to say, it requires the existence of legal tender. This may initially coincide with a commodity money, i.e., legal tender may be a commodity money such as the gold sovereign. Legal tender and commodity money are, however, distinct in that they correspond to different exchange relations — one to the credit economy, in which credit relations and the corresponding juridical superstructure (law of contracts) have developed; and the other merely to the circulation of commodities themselves. Insofar as credit economy develops from and presupposes the circulation of commodities, it is possible for legal tender or state money to completely replace commodity money, e.g. British currency now contains no 'precious' metals.

Due to the need to meet wages in money, commercial credit merely restricts the field of operation of money, and so the need for money capital persists. For this and other reasons associated with the disjunction between the conditions of production of surplus value and the conditions of its accumulation, bank capital as the dependent form of existence of money capital comes into existence.

Banks concentrate various small discrete hoards of money into a mass, thereby transforming them into money capital. They concentrate the reserve funds of merchants and producers; thus a portion of money capital which had previously lain idle can now be laid out. They concentrate the small savings of all classes rendering them large enough to serve as money capital, plus all revenues which are usually only gradually consumed (c.f. current accounts). They represent the centralisation of money capital lenders in the face of borrowers, and the centralisation of borrowers in the face of lenders.

Banks participate in, and support, commercial credit through their discounting of bills of exchange — a process whereby banks purchase bills at a discount, i.e. below their face value; the magnitude of the discount being dependent upon the interest rate and the credit-worthiness of the endorser of the bill. However, deposit banking and the use of cheques, by centralising the accounts of exchanges between different capitals, progressively replaces commercial credit. The various forms of bank credit: banknotes, overdraft rights, discounting of bills, the guaranteeing of stockmarket issues, etc., become the dominant source of credit.

The banking system creates money capital. The mechanism by which it does this is simple. Depositors lend money to the banks; the banks know by experience that only some portion of deposits is likely to be withdrawn at any one time. Let us say that depositors are never likely to wish to withdraw more than ¼ of their deposits at a time; the banks are then free to lend out the remaining ¾ of the initial deposits. Thus if £10 million was deposited, they can lend out £7.5 million to other capitalists. The capitalists who receive the loan use it to purchase commodities, or use it to pay wage labourers, who in their turn use it to purchase commodities. Whichever way, the money ends up in the hands of other capitalists as receipts for sales. These capitalists in their turn deposit the money at their banks. The banks at the end of the cycle end up with £10 million in cash and deposits of £17.5 million, plus loans outstanding of £7.5 million. Cash reserves clearly still exceed ¼ of deposits, so that the banks can again lend money out, £5.625 million this time. The process will continue until deposits = £40 million, loans = £30 million and cash = £10 million. These loans of £30 million represent the money capital created by the banks. The quantity of money capital which the banking system can generate from an initial quantity of legal tender or commodity money depends upon how much they must keep in reserve to meet withdrawals. This in turn depends on the needs of depositors for cash, one of the chief of these being the need on the part of the capitalists for regular quantities of cash each week for wage payments. Whilst such factors set limits to the creation of money capital, the state, in order to increase the security of the banking system, often sets statutory limits to

the ratio of reserves to deposits. Because of this the full potential of the banking system to create money capital is rarely utilised. Despite this the banks do effect an enormous economy in the use of cash, such that wherever a banking system develops it soon completely eliminates the use of cash in transactions between capitalists. More importantly, banking sets extra capital in productive motion, by unifying hitherto latent, because fragmentary, social capital.

We said earlier that the fundamental contradiction posed for capital by commodity money was that it entailed a portion of total social capital being fixed in the form of gold, in which form it could never be used as productive capital and thus never directly serve as a means for the exploitation of the working class. For the individual capitalist, this was expressed as the need to maintain a portion of his individual capital as money. Banking resolves this contradiction for the individual capitalist, who can now deposit his money in the bank and earn interest on it through bank advances to needy capitalists, who repay with interest (i.e. by handing over some of the surplus value they've extracted). For social capital, however, the contradiction reappears in the need for the banks to maintain a cash reserve. This form of the contradiction is only resolved with the complete separation of legal tender from gold in the modern irredeemable paper currency.

The separation of gold from legal tender is brought about by the financial needs of the state. The bourgeois state can finance itself in three basic ways: by taxation, by borrowing money from the bourgeoisie, or by the issue of token money. So long as legal tender kept the form of gold or silver coins the state made no profit from coinage (assuming no mint-tax, described above). If instead legal tender assumes the form of token money (i.e. coin of base metal or paper currency), the exchange value of the notes or coin far exceeds the cost of printing or minting them. The surplus is thus available to finance state expenditure. This resolves the problem for the capitalist class of maintaining cash reserves, by deducting the cost of these reserves from taxation. Thus two unavoidable costs for capitalism are offset one against the other; and so long as the issue of legal tender does not exceed the quantity of gold money which would otherwise circulate, the level of prices is not affected.

EFFECTS OF CLASS STRUGGLE UPON ACCUMULATION.

We showed above that if the working class succeeded in gaining wage increases — with a system of commodity money and no state intervention in the economy — the effect was to reduce the rate of surplus value whilst leaving prices constant. If this is the case, what is there to stop the working class completely abolishing capitalist exploitation through repeatedly winning wage increases, i.e. until the rate of surplus value was driven to zero. If the abolition of exploitation were that simple it would long ago have been achieved. However, capitalism contains mechanisms which render this impossible. Firstly, as the rate of surplus value declines, capitalists find it more profitable not to accumulate surplus value as productive capital; instead attempting to accumulate it in the form of money hoards or in the form of fictitious capital like bonds, shares, or even 'artistic masterpieces'. Whilst individual capitalists may attempt to do this it is impossible for the class as a whole to do so. By attempting to switch their profits into bonds, they reduce their purchases of new means of production. Because of this, those capitalists who produce means of production find that they have over produced and are unable to sell their output. As profits in the capital goods industry decline further some companies go bankrupt and workers are laid off. This decline in profits produces a chain reaction — investment declines further, forcing more companies into bankruptcy. The rise in unemployment leads to a fall in workers' expenditure, producing a slump in the wage goods industries. The crisis soon spreads throughout the economy, leading to layoffs in all industries. Under these circumstances the rise in unemployment forces workers to compete for jobs, weakens trades unions and enables capitalists to push down wages. Secondly, when capitalists do invest, they purchase labour-saving machinery, so that even when output rises again to its old level, employment remains lower than before. And this makes it more difficult for workers to raise wages again.

By themselves the banks tend to intensify this mechanism. As profits fall and companies have difficulties meeting wages out of current receipts, they attempt to meet costs by withdrawals from their bank deposits. In order to preserve their reserves in the face of such withdrawals, banks call in their short term loans. The capitalists to whom these loans had been made, being themselves short of cash, are unable to repay and are forced into bankruptcy. Unable to recall their loans, banks are forced to suspend payments. The system of credit collapses, intensifying the crisis and spreading it more rapidly. The classical example of this is the failure of the American banking system in 1929, which precipitated the great depression of 1929-33.

THE GENERAL CRISIS POST '29.

The increasing severity of capitalist crisis, culminating in the slump of the '30s, alongside full employment and prosperity in the Soviet Union, posed a severe political threat to the capitalist class. In Britain and the US the slump was only terminated through the massive state

intervention in the economy.

Trades union struggle can lead to a fall in the rate of profit and can thus precipitate an economic recession, but it is only one of the tendencies which act to reduce the rate of profit.

1. The most fundamental of these is over-accumulation. As shown above, this occurs if capital accumulates more rapidly than the exploited labour force. Here the rate of profit tends to decline, because: - a) the organic composition of capital tends to rise; and b) the rate of surplus value tends to fall due to competition among capitals forcing up the price of labour power. This is a general law of all capitalist accumulation.

2. As capital develops into monopoly capital, (initially due to the increasing socialisation of the productive forces), the cost of realisation of surplus value rises, e.g. the costs involved in granting and collecting credit sales, the time-lag involved in this cash-flow, exporting costs, etc. Larger capitals can afford to spend more on sales efforts than their rivals and thus are doubly able to bankrupt their smaller competitors. Firstly, enjoying large scale production, big capital can use and develop the most advanced techniques and thus produce cheaper. But even if its commodities are no cheaper, a larger company with preferential access to funds (either internally accumulated or borrowed), ability to hold large stocks and to export, plus better advertising and distribution, tends to displace a smaller company. Advertising and salesmanship thus become a potent new force for the concentration and centralisation of capital. As a result industries become dominated by a handful of monopolists, all so large that they gain little further advantage from scale economies. Increasingly competition takes the form of sales effort in all its various aspects. This reduces profits because a portion of surplus value is expended on the wages and general costs of those involved in the sales effort. Secondly, as the realisation of surplus value absorbs more labour, less is left in productive employment. As only productive labour can be exploited, the base for exploitation is narrowed, intensifying the inherent movement towards over-accumulation.

3. Militarism, the product of contradictions on the international scale. In terms of expense the greatest of these is that between the various imperialist and social-imperialist powers. Military expenditure arising out of the great arms races, from the Anglo-French naval rivalry of the 1870s to the contemporary Russo-American missile race, absorbs an increasing quantity of labour and means of production in the most advanced sectors of the capital goods industries. In the earlier stages this was probably beneficial to industrial capital, as the state was able to concentrate

accumulation of proletarians becomes impossible. As a result, the rate of profit can only be maintained by imperialist plunder and the export of capital. Imperialism allows an external accumulation of the proletariat through capital export. The limits to the accumulation of the capital of any one imperialist power are now set only by the growth of the proletariat in those areas of the world that it can secure as fields for investment. The seizure of the world's richest mineral reserves in the colonial countries can also temporarily offset the declining tendency of the profit rate, by cheapening the elements of constant capital and thus offsetting the rise in the organic composition of capital. However, the field for capital export has been greatly undermined since World War 2, as the Chinese Revolution removed en bloc no less than one quarter of the world's total population from the blessings of such "profitable investment" now enjoyed in Southern Africa. Further, the sources of cheap raw materials are, as mentioned above, dwindling, due both to exhaustion of reserves and contradictions between national bourgeois regimes in the emergent nations on the one hand, and the imperialist powers on the other. Likewise the assertiveness of the landlordist and petit-bourgeois regimes constituting OPEC, as they develop into good national bourgeoisies, exacerbate the already chronic condition of the likes of India (about one sixth of the world's population), so reducing the funds available for investment in the Indian infrastructure (i.e. roads, railways, docks, communications, etc.), which in turn makes productive investment (in plant) by (say) British Leyland, that much more limited and less profitable. Hence, in the weaker imperialist powers where all these contradictions are most acute, (primarily UK, but increasingly the US), the slower development of the productive forces and the resulting lower value of their labour on the world market forces repeated devaluations of their currencies. As a result the export of capital becomes more expensive as does the import of raw materials.

The automatic response of capitalism to falling profits is depression. While the proletariat was politically and economically unorganised, this enabled wages to be forced down and thus the rate of exploitation to rise. Depression also involved costs to the bourgeoisie in that it held back the development of production, and forced many capitals into bankruptcy (this latter effect benefited large-scale capital which was able to buy out competitors at bargain prices). These disadvantages were more than outweighed by the increased rate of exploitation which depression brought about. Increasing trades union strength enabled the working class to resist this, however, and after 1917 the development of the communist movement made each depression a potential political disaster for capitalism. It became necessary for the state as the personification of the bourgeoisie as a whole, to ensure the economic, as well as the political,

reproduction of capital. Imperialism develops into state monopoly capitalism.

State monopoly capitalism is marked by the increasing interpenetration, and indeed inseparability, of politics and economics as the economic functions of the state undergo immense expansion. Among the chief aspects of this are: the merging of finance capital with the state monetary system; an increasing portion of the social surplus product is appropriated by the state through the tax system; an even greater expansion of state expenditure; dependence of large sectors of private monopoly capital on state subsidy; and finally the conversion of private capitals into state capital through nationalisation. The ramifications and implications of most of this lie outside the scope of the article, as we are interested chiefly in its relation to inflation. All that we can do here is to briefly indicate the change in the nature of the base and in its relations with the superstructure.

CURRENT BASE AND SUPERSTRUCTURE INTERRELATIONS.

The specifically capitalist mode of production has two foundations: firstly, in the nature of the productive forces; and secondly, in the system of property relations. All modes of production develop and shape the productive forces inherited from previous modes, giving them a form appropriate to the new mode of production. Under capitalism this form is that of machine industry. Capitalist machine industry contains at the level of the productive forces the germs of the fundamental contradiction of capitalist society: the contradiction between social production and private appropriation. This stems from capitalist production embodying two qualitatively distinct forms of the division of labour. First, division of labour within the factory. This is structured into an organic unity by the technical exigencies of machine production: "in an organised system of machinery, where one detail machine is constantly kept employed by another, a fixed relation is established between their numbers, their size and their speed. The collective machine, now an organised system of various kinds of individual machines, and groups of individual machines, becomes more and more perfect, the more the process as a whole becomes a continuous one, i.e., the less the raw material is interrupted in its passage from its first phase to its last". (Capital, Vol.1, p.415). This division of labour is a priori, which means it depends upon the known technical capacities of different machines and as such can be preplanned. On the other hand, so long as the individual units of production of any given type of use value have an output small relative to total social production of that kind of use value, it is not possible to have a form of division of labour at the societal level which corresponds to that at the factory level. Under these circumstances, the individual factories within which mechanical division of labour operates cannot be knit together in a similar system. The various factories producing a given use value are technically independent of one another. This installs a separation of the units of production one from another. This separation means that the social division of labour is only established a postiori, i.e. through the exchange of commodities. Capitalist property relations parallel this separation with another: the separation of the direct producers from their means of production. This is historically brought about by direct expropriation and by the inability of the small producers to compete with machine industry.

The first separation introduces commodity relations between units of production — means of production and products become commodities. The second separation makes labour power itself a commodity. Under these circumstances production becomes the self expansion of value — the exploitation of the direct producers through the extraction of surplus value; NOT the creation of use values.

The division of labour within the factory requires management or control, this function being assumed by capital through its personification, the capitalist manager. It is because capital through its economic agents can effectively control production, that it can extract surplus value. But as capitalist control, its entire objective is the self expansion of value, not 'the satisfaction of wants'.

Commodity circulation allocates the labour product between the different branches of production and the different classes of society, thus reproducing both the material and social prerequisites of production at the economic level. Simultaneously, the competition between capitals that necessarily arises from the nature of the productive forces (since all are owned by private persons for the purpose of acquiring as much wealth as possible, forcing each to find a profitable niche), regulates a postiori, blindly and crudely, the division of labour in society.

Capitalist accumulation, however, develops the scale of the units of production. This process begins to qualitatively affect the division of labour in society as a whole. As units of production grow in size, the number of producing units in each branch of production declines. The anarchic multiplicity of producers which formerly determined the nature of the division of labour at the social level begins to disappear. As this happens, the social division of labour more and more takes on the characteristics of the division of labour in the factory, i.e. each sector becomes a mere extension of generalised social production (c.f. the ramifications of a strike at Lucas, or the bankruptcy of Rolls Royce, neither of whom are anywhere near being primary producers). Insofar as this occurs, the integration of the different branches of

production through the market becomes more difficult: it is far too "unconscious" a mechanism. Accordingly, the possibility of the interplay of capitals in free competition for labour power and volume of sales declines.

Instead of integration of social division of labour through the market, what the productive forces demand is a social control over production similar to that which within the factory, is exercised by the capitalist as the organiser of production. The outputs of parallel and sequential stages of production must be brought into technically determinate planned ratios. This is initially brought about by the vertical integration of production within giant enterprises. Within these, control of production remains guided by the imperative of maximising the profits of the enterprise concerned. Increasingly, however, for vital sections of the industrial infrastructure, such control can only be exercised from above by the coordinating mechanism of the ruling class (e.g. Electricity/Nuclear Power, Aircraft, Rolls Royce, Coal, Steel, etc.).

But all material production is always necessarily also a reproduction of social relations. The coordination of material production by the state is simultaneously a perpetuation of production as the reproduction of capital. The apparatus which was previously concerned chiefly with the constraining of class struggle in the interests of capital, must now step in to guarantee the extended reproduction of the technical conditions of capitalist production. The state to an ever-expanding extent becomes responsible for the allocation of labour and investment between the different branches of production (though this control is still carried out in the main via the use of the market). This intervention retains as its objective the perpetuation of capitalist social relations. It is only through the regulatory function of the state that the capitalist class retain their effective control over the productive forces. In those conditions, whichever class controls the state can command production. To remain the ruling class the bourgeoisie must retain control of the state. For the capitalist class to be rendered obsolete, and the working class to control production, the state by which the bourgeoisie retain control of the base must be smashed, and replaced by proletarian apparatuses of state control. When, and only when, this has been accomplished, can the working class build a truly socialist society.

THE INFLATIONARY MECHANISM AS A WHOLE.

Everything which tends to reduce the rate of profit tends to produce unemployment.

In the preceding section we listed various factors tending to reduce the rate of profit. All of these would by themselves produce tendencies towards unemployment. In terms of inducing unemployment the most potent factor is wage increases. Wage increases are brought about by the overaccumulation of capital and by the increasing organisational strength and militancy of the proletariat. To understand the importance of wage increases as a factor causing unemployment we must look at the mechanism, whereby declining profits engender unemployment.

Declining profits cause a reduction in capital investment below the level necessary for the maintenance of full employment. However, the rate of profit which is important in the determination of the level of investment, is not the gross level of profit, i.e. total surplus value divided by total capital stock. Rather, what is important in determining the level of investment is what Marx calls profit of enterprise. Profit of enterprise is the rate of profit minus the rate of interest, or, as Marx signified it, p - i. [For details of the division of profit into profit of enterprise and interest, see Capital Vol.III, chapter XXIII.] Interest appears as the return due consequent upon the mere ownership of capital; and profit of enterprise appears as the surplus above this due to the productive employment of capital. If the rate of profit falls sufficiently low, capitalists will attempt to convert their surplus value into loan capital -- on which they get the rate of interest at least -- rather than risking its productive employment for which they may get a return below the rate of interest.

Because profit of enterprise is determined by two different things, gross profit and interest, it is susceptible to variations coming from two different directions. It is reduced by rising interest rates, and falling gross profit rates.

Wage increases are particularly important as a cause of inadequate investment because they reduce profit of enterprise in both ways. Firstly: they reduce gross profit rates by on the one hand lowering the rate of surplus value, and on the other by increasing the mass of circulating capital on which the rate of profit must be calculated. Secondly: wage increases entail industrial capital withdrawing a greater quantity of money each week, in order to meet wage payments. These increased cash withdrawals threaten the reserves of the banks. To counteract this, the banks raise interest rates in order to attract more deposits and discourage borrowing. The combined effects of decreased gross profits and increased interest rates acts to squeeze investment.

Declining investment means inadequate demand for means of production. As order books empty, companies producing means of production lay off workers. This reduces demand for workers' consumption goods, which in turn leads to still less investment and still more layoffs. The

tendency towards unemployment is aggravated by monopolistic enterprises attempting to offset falling profits by raising their price levels. The inevitable result of price rises in conditions of slack demand is that the actual quantity of commodities sold declines even more rapidly than it would if prices had remained stable. Unable to sell their commodities the monopolies cut back production and lay off workers.

In attempting to reduce unemployment the state has two avenues open to it. It can either directly increase demand through government expenditure and/or reduced taxation; or by lending to the banks it can directly lower the rate of interest thus raising profit of enterprise (p - i). Government expenditure can be financed through taxation, borrowing or the printing of money. If taxation is used it has the disadvantage of largely offsetting the expansionary effect of government expenditure. If borrowing is used, this increases demand for money capital and pushes interest rates back up, further reducing investment. The most effective way for the state to reduce unemployment is thus to finance its expenditure through the creation of money. In doing so, the state acts directly to create sufficient demand, whilst at the same time the money which the state creates and uses to purchase commodities passes into the hands of the banks, who are thus enabled to lower interest rates.

The lower interest rates promote new investment. This investment expenditure by industrial capital is financed by loans which the banks can now make thanks to the increase in their money reserves. With demand sustained by credit expansion and government expenditure, it now becomes possible for firms to recoup rising costs through price increases. With stagnant or declining demand, any such attempt will result in decreased sales, but now prices may be raised without a corresponding decrease in sales. Under these conditions, it may appear to the individual capitalist that through a mere act of will he can increase his profits by raising his prices -- 'If wishes were horses, beggars would ride'. The capitalist's hopes, aspirations, and prices are all dependent for their realisation on behind-the-scenes activity of the state and the banks. Even under non-inflationary conditions the illusions of competition make it seem to individual capitalists that profits have their origin in cunning and 'financial wizardry', rather than in the exploitation of the proletariat. Under inflationary conditions, such illusions are magnified enormously. The mystic powers of credit enables 'wizards' to make millions from juggling and speculation without directly employing a single worker.

Rising prices reduce the purchasing power of the wage and thus devalue labour power, leading to an increase in the rate of surplus value. So what started as a measure aimed at preventing unemployment ends up by increasing exploitation! The fundamental contradictions leading to a declining rate of profit have not of course been resolved. Increasing prices make the working class more determined in the economic struggle, and also the tendency towards overaccumulation still holds. Similarly, all the other reasons for declining profits still hold. In due course, once prices have stabilised (relatively), these forces start to act once again. Although each injection of more money may stave off incipient depression, once prices stabilise the tendency towards depression re-emerges, necessitating further monetary expansion. Like an addict, a capitalist economy dependent on monetary expansion requires ever greater doses.

Whilst the capitalist international monetary system retained some semblance of order, the need to maintain the value of the £ restrained the British bourgeoisie from using the full monetary powers of the state. The 'City', as our finance capitalists call themselves, opposed any measures which would weaken the £. This was no mere eccentricity on their part -- on the contrary, it was firmly grounded in their class interests. Their ability to attract deposits in the world money market depended crucially upon the value of the £. When the uneven development of capital on the world scale and the accumulation of finance capital brought about the demise of the Bretton Woods system, a major constraint on the use of inflationary finance was removed.

At an earlier historical stage, before the contradictions of capitalist accumulation became manifest in their full intensity, the material and social conditions of capitalist production could be reproduced through the mechanism of commodity circulation. Commodity circulation could ensure the distribution of the value product between the different branches of production and between the different classes of society. Under these conditions the circulation of money was a mere reflex of the circulation of commodities. [For reflexivity, see Capital Vol.I, page 91, Kerr]. The function of the state in respect of the monetary system was restricted to the issue of sufficient money to meet the needs of commodity circulation, and to providing the technical standards (e.g. weights, measures) and the legal framework for economic contracts. As the contradictions inherent in the extended reproduction of capitalist relations (at the world level) develop, unmodified commodity circulation becomes inadequate to the reproduction of capital. Now, instead of using the monetary system merely as the passive servant of commodity circulation, the bourgeois state is forced to transform it into an active mechanism in reproduction of capital. The reproduction of capitalist social relations at the economic level becomes dependent upon the budgetary and monetary policy of the state. A ruling class can rule only so long as it maintains mastery and control over the productive forces. If it is to survive, an exploiting class must make the productive

forces into a continuing means by which it may exploit the working masses. For the capitalist class this means that the productive forces must be used for the production not only of use-value, but also of surplus value. The means of production must be made to serve as capital, as instruments for the expropriation of unpaid labour. At the present time, this requires active state intervention in the circulation process. It requires that monetary policy becomes an instrument in the reproduction of the productive forces in the form of capital. Control over the monetary system becomes a weapon in the class struggle and a vital apparatus of bourgeois state power. No longer can the state merely provide the overall conditions within which private capital can get on with its own self-expansion -- now the state must act directly and continually in the economy to ensure the very functioning of capitalist production.

DEVIATIONS ON THE QUESTION OF INFLATION

The three principle deviations on this question are: the petit-bourgeois anti-monopolist tendency, and left and right economism.

The first of these has already been touched upon in the section on the theory of cost-plus. In its essence this tendency attributes rising prices to the decisions of 'monopoly' (as in anti-monopoly alliance) to raise prices. The fundamental idealist nature of such an explanation has already been pointed out. It is the ideological expression of the antagonism between small capital and monopoly capital. In Capital Vol.3, Marx shows how the total surplus value extracted by society's capital, considered as one whole, is (in the absence of monopoly) shared out between different capitalists in proportion to the mass of capital which they employ. Under conditions of free competition, the profit accruing to an individual capital does not correspond to the mass of surplus value that it expropriates from the workers whom it employs. The surplus value is shared out so that each capitalist, provided of course that he is of at least average efficiency, receives a profit proportionate to the total capital that he employs, multiplied by the average rate of profit. Each aliquot part of total social capital thus tends to receive an equal amount of profit. This idyllic scene is however disturbed by the advent of monopolies.

Monopolies arise when the scale of production is so large that it is not possible to have a large number of competing capitals producing the same commodity. Whereas previously any capitalist who introduced a labour-saving innovation, and thus enabled the production of relative surplus value, was soon forced by competition to reduce prices, the monopolist no longer has to. Instead of sharing out the relative surplus value which he produces among total social capital, the monopolist retains it himself. This is the basis of monopoly profit. It is this change in the distribution of surplus value brought about by the advent of monopoly, that underlies the petit-bourgeois objection to monopoly price. Whilst anti-monopolist ideology has its origin among the small capitalist, it finds ready customers and salesmen among the new petit-bourgeoisie, i.e. unproductive wage earners employed by, or dependent upon monopoly capital or its state. Being unproductive (i.e. they produce no surplus value), these layers are not subject to the oppressive discipline or regimentation that the production of surplus value entails. Insofar as they come into conflict with monopoly capital, it is not as exploited producers but as consumers. A theory which explains profit as originating in exchange, not production, has of course considerable appeal to such people. If profit arises in exchange, then they, as consumers, are as exploited as any productive worker. Classes vanish and we are left with a consumers' "anti-monopoly alliance", or 'The People' v The Monopolies a la CPGB's British Road.

Within the workers' movement such theories serve to mask the true nature of the exploitation process and thus hide the relation between inflation and economic class struggle. Politically, they give rise to demands for price control, either through the breaking up of monopolies or through government price regulation. The first of these is utopian and historically reactionary. Monopoly capital is the inevitable outcome of capitalist development, and has its foundation in the progressive socialisation of the productive forces brought about by that development. The breaking up of monopolies would entail regression to a more primitive economic level.

But what would be the effect of a water-tight price freeze? The first effect would be to create a general rise in the level of unemployment. A price freeze would prevent the compensating excess demand created by credit expansion and government expenditure from taking effect. With these compensating effects abolished the rate of profit would resume its decline. Whilst inflation persisted, rising prices constantly devalued debts, allowing industrial capital to sustain a higher level of borrowing than would otherwise be practical. Once price rises stop so does the devaluation of debt. The burden of interest charges and debt repayment rises. Profit of enterprise is squeezed between falling profits and rising debt charges. Accumulation is interrupted and renewed unemployment sets in. The second effect would be the development of shortages and blackmarkets. The different branches of production would be unevenly affected by the price freeze according to how high their rates of profit were prior to the freeze. Output in those with the lowest rate of profit would fall most rapidly, giving rise to shortages. Insofar as this occurred in industries producing means of production, the effect would be cumulative. In commodity production, the allocation of

the labour product between the different branches of production is carried out through the exchange of commodities on the market. This allocation is vital to the reproduction process; any measures such as rigid price freezes, which inhibit this allocation, must inevitably interfere with the reproduction of the conditions of production. Production, as a result, is more or less disrupted.

Petit-bourgeois anti-monopolism, which sees the origin of profit in exchange, cannot understand the relations of production. Its solution to inflation concentrates upon conditions of exchange whilst leaving the relations of production untouched. But relations of exchange and distribution have their basis in the relations of production. To attempt to change only the former and not the latter is futile; indeed it is positively diversionary.

The next deviation is left economism. Subjectively, the proponents of this tendency are revolutionary socialists. They recognise that all value is produced by the proletariat and that profits are thus a deduction from this value. They generally take, however, a moralistic view of profits, which are seen as arising from the proletariat being "cheated" out of the full value of its labour. The fallacy of this viewpoint was thoroughly shown by Marx and Engels. It is an essential point of marxist political economy that surplus value arises out of the exchange of equivalent values. The labourer is paid the full value of his labour power. Militant economism sees capitalism as essentially a system in which the workers do not receive the full value of their labour, and as a consequence, socialism is seen as the workers receiving the full value of their product.* It follows from this viewpoint that the struggle of the proletariat to raise the value of labour power is itself a socialist struggle.

But anybody familiar with Marx should realise that under socialism surplus value (i.e. that produced in excess of the (then) necessary means of subsistence) will continue

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* In case it should seem incredible that anybody nowadays could seriously believe this vulgar Ricardian-socialist notion , and that we are merely tilting at windmills, we quote from the Socialist Worker Pamphlet: "What's happening to your wages?" The pamphlet takes the form of questions and answers. On page 6 we find the question: "You keep mentioning the squeeze on profits but surely profits have never been so high?" To which the following answer is given: "For the moment yes. And we have to deny the right of employers to take profits be they high or low. The full product of labour belongs to the working class."
Engels' "Anti-Duhring" is especially cutting about this outlook.

to be required from the workers. The proletarian state will then appropriate surplus value for the sake of augmenting society's stock of means of production, and for the promotion of the cultural and educational development of society. Surplus value will be the sine qua non of socialist construction — under capitalism it was the basic prerequisite of capitalist production and reproduction.

Speaking of socialist society, Marx said:

"... the cooperative proceeds of labour are the total social product.

"From this must now be deducted:

"First, cover for replacement of the means of production used up.

"Secondly, additional portion for expansion of production.

"Thirdly, reserve or insurance funds to provide against accidents, dislocations caused by natural calamities, etc.

"These deductions from the "undiminished proceeds of labour" are an economic necessity and their magnitude is to be determined according to avaliable means and forces, and partly by computation of probabilities, but they are in no way calculable by equity.

"There remains the other part of the total product, intended to serve as means of consumption.

"Before this is divided among the individuals, there has to be deducted again, from it:

"First, the general costs of administration not belonging to production.

"This part will, from the outset, be very considerably restricted in comparison with present-day society and it diminishes in proportion as the new society develops.

"Secondly, that which is intended for the common satisfaction of needs such as schools, health services, etc.

"From the outset this part grows considerably in comparison with present-day society and it grows in proportion as the new society develops.

"Thirdly, funds for those unable to work, etc., in short, for what is included under so-called official poor relief today.

"Only now do we come to the "distribution" which the programme, under Lassallean influence, alone has in view in its narrow fashion, namely, to that part of the means of consumption which is divided among the individual producers of the cooperative society.

"The "undiminished proceeds of labour" have already unnoticeably become converted into the "diminished" proceeds, although what the producer is deprived of in his capacity as a private individual benefits him directly or indirectly in his capacity as a member of society." (K. Marx, Marginal Notes to the Programme of the German Workers' Party.)

The attitude that the spontaneous Trade Union struggle is inherently socialist is only tenable if one also holds that surplus value arises through the bourgeoisie cheating the working class out of the full value of its labour. Scientific examination reveals that on the contrary surplus value has its basis in the relations of production.

"Any distribution whatever of the means of consumption is only a consequence of the distribution of the conditions of production themselves. The latter distribution, however, is a feature of the mode of production itself. The capitalist mode of production for example, rests on the fact that the material conditions of production are in the hands of non-workers in the form of property in capital and land, whilst the masses are only owners of the personal conditions of production, of labour power. If the elements of production are so distributed, then the present day distribution of the means of consumption results automatically." (K. Marx, ibid.)

Capitalist exploitation rests upon the control of the means of production by the capitalist class, a control which is now overwhelmingly dependent upon, and exercised through, the capitalist state. The struggle for socialism is a struggle to wrest control of the means of production from the hands of the capitalist class and into the hands of the proletariat. It is thus a struggle to smash the capitalist state and to build a proletarian state. The forms of working class organisation or tactics of struggle required in this task by no means correspond to those required in the trades union struggle.

At present it is a favourite argument of left economism that all strikes are objectively political. In the past, they say, before there existed a government anti-inflation policy, it may have been the case that strikes were exclusively economic. But now all that has changed; since governments have adopted a policy of conscious wage regulation, all strikes become strikes against the government. Thus all strikes are objectively political.

This argument, like all half-truths, has some superficial credibility. On closer examination, however, certain problems arise. Firstly, while it is true that some strikes have expressly political objectives (i.e. the various protest strikes against the Industrial Relations Act), the majority continue to be strikes for higher wages. In these the government intervenes (the form of intervention is outwith our examination) to limit wage increases. The economic struggle acquires a political character, but — and this is the important point — only from the standpoint of the capitalist class. The capitalist class through the medium of state power, attempts to influence the outcome of the economic class struggle. The capitalist state uses political means to achieve economic ends. In the meantime the working class is continuing to use the means of economic struggle to obtain economic objectives. The objectives of both of the two conflicting parties remain economic, whilst it is merely the means used by only one of the conflicting parties that is political. It is not the workers organised in trades unions who are taking on the government, but, on the contrary, it is the government that takes on the trades unions. Whilst the ruling class actively bring their politics into the economic struggle, the working class remains politically passive. So much for strikes being objectively political. Such a line merely masks the inability of left economists to present an independent communist political line to the working class on the question of inflation.

If one once accepts as a premise the idea that strikes are objectively political (whether or not the politics are socialist does not seem to be raised), to encourage strikes for demands well above government pay norms becomes an end in itself. The ideological basis on which the workers engage in struggle becomes secondary in the eyes of these "militants". So, according to their socialist science — if it is easier to get workers on strike by moralistic denunciations of profit and asserting the right of workers to the full product of their labour, then do so! If it is easier to get a strike by demagogically denying that there exists any connection between price increases and wage increases, than it is by a scientific explanation of the relationship between wage increases and inflation, then demagogy will do! Political economy shows us that in the present situation wage rises in excess of productivity increases tend to create economic stagnation and unemployment unless offset by government induced inflation. This, however, might reduce militancy in the economic struggle, so — better to keep quiet about it: it is after all only objective reality!

By holding fast to, and glorifying, spontaneous economic demands, "left economism" lays itself open to attack by right economism. Like left economists, right economists take as the starting point of their propaganda the spontaneous desire of the working class for secure

employment and a rising standard of living. Unlike the left, however, the right are more 'realistic' and less 'revolutionary'. They recognise that under capitalism economic growth, price stability, and full employment demand the maintenance of a 'reasonable' rate of profit. The maintenance of a 'reasonable' rate of profit requires wage control: wages must not be allowed to rise faster than productivity; preferably, they should rise more slowly than productivity. In effect, right economism advocates that the working class should agree voluntarily to the conscious regulation of wage levels by the capitalist state. This alone, they say, can guarantee economic growth (or if they wish to pass as marxists: 'the development of the productive forces'). The most important of these exponents of class harmony are right social democrats, or in other words, any labour government. Right economism is the most fully developed form of bourgeois politics within the labour movement.

Neither variant of economism effectively challenges the capitalist mode of production as such. Neither is based on a scientific understanding of capitalist production. Both have in common the same overt objective, the gaining of economic advances for the working class. Within the framework of capitalist production (which they do not in practice challenge), left economism does not offer the working class a more practical programme for the gaining of this objective than does right economism.

The point is that under capitalism economic growth always assumes an antagonistic social form. The development of productive forces comes into contradiction with social relations, and while these social relations exist, the contradiction can be resolved only negatively, only at the expense of the working class.

"..within the capitalist system all methods for raising the social productiveness of labour are brought about at the cost of the individual labourer; all means for the development of production transform themselves into means for the domination over, and exploitation of, the producers; they mutilate the labourer into a fragment of a man, degrade him to the level of an appendage of a machine, destroy every remnant of charm in his work and turn it into a hated toil; they estrange from him the intellectual potentialities of the labour process in the same proportion as science is incorporated in it as an independent power; they distort the conditions under which he works, subject him during the labour process to a despotism the more hateful for its meaness; they transform his lfetime into working time and drag his wife and child beneath the juggernaut Capital".
(Capital; General Law of Capitalist Accumulation, section 4.)

Right economism seeks relief for the working class through economic growth, but under the existing system of production, all economic growth is simultaneously growth of oppression, exploitation and dehumanising toil. Left economism seeks relief for the working class in the struggle against immediate oppression for immediate economic gain, but, insofar as this succeeds, accumulation is interrupted, the development of production stagnates and the working class has to suffer the twin miseries of unemployment and inflation. All attempts to improve the lot of the working class that leave the mode of production untouched are caught in this dilemma and rendered null. The forms of oppression change, the substance does not.

On this question R. Jones of the revisionist British and Irish Communist Organisation has been attempting to peddle the Bernsteinite junk about capitalism evolving peacefully into socialism. He argues that the development of the productive forces has reached such a level that they are forcing the introduction of communism upon the bourgeoisie. He gives as evidence of this the introduction of Keynesian economic policies and nationalisations of sections of industry, arguing that these are 'elements of communism' and that the bourgeoisie is progressively introducing 'social control of production' and 'production for use'. All this he says proves that there has been a transformation in social relations resulting in Britain now having a combination of capitalist and communist modes of production. This is pure sophistry. What he does is to point to examples of the increasing socialisation of production under capitalist production relations, and to the development of state capitalist production, and claim that these constitute examples of communist production.

In order to deal with this we must be perfectly clear as to what is meant by the capitalist mode of production and communist production in marxist theory. Firstly, Marxism uses the concept: 'mode of production' in two different ways. In one sense it means mode of material production, i.e., the technical characteristics of the production process -- the way in which labourers, means of labour and object of labour are combined in the process of production. The way the mode of material production is technically organised depends upon the nature of the productive forces. Thus when in the section of Capital that deals with the production of relative surplus value, Marx talks about the development of the specifically capitalist mode of production; he is talking about the mode of material production developed by capitalism, i.e. machine industry. In this sense of the words 'mode of production', Marxists have long held that capitalism produces the elements of communism, because capitalism develops some of the technological conditions necessary for communism.

The second use of 'mode of production' is to designate the complex of production relations and social relations which dominate a particular social formation. It is in

this sense that one talks about a society being dominated by the capitalist mode of production. What is important here are the production relations with the economic, political and ideological social relations which these engender. By production relations are meant: the relations between the direct producers, the means of labour, object of labour, the labour product, and the non-producers living off surplus value, plus the way in which the various technically defined labour processes and stages of labour processes are integrated. For instance, since under capitalist production the direct producers are wage labourers, their labour power thus enters the production process as a commodity — the value of labour power (or variable capital), the means of labour and object of labour (leaving land aside) also assume the form of commodities (constant capital), as does the labour product (commodity capital). All four — labour power, means of labour, object of labour and the labour product — are under the ownership and control of non-labourers living off surplus labour — the capitalists and their agents. The integration of the different labour processes and stages of labour processes occurs in two ways: 1) where the stages of the labour process occur within a particular capitalist enterprise and the movement of the labour product from one stage to the next requires no change in ownership or possession, then the labour processes are integrated by the planned allocation of use values; 2) where the stages of the labour process or the different processes do not take place within the same enterprise, then the integration of these processes occurs through the circulation of commodities.

The reproduction of the mode of material production and of the relations of production requires and engenders a system of social relations, that is to say, of class relations. Specifically, it entails a system of social relations of distribution. It requires the distribution of the labour product between different social classes. Secondly, it engenders relations of economic class struggle. Finally, the reproduction of economic social relations entails a superstructure of political and ideological relations; in particular a state serving the interest of that class which benefits from the extant economic social relations. If we take the example of capitalism, capitalist social relations of distribution ensure that the capitalist class continues to be able to monopolise the means of production, whilst the working class continues to have no productive resource other than its labour power. The surplus value produced is controlled by the capitalist class and its distribution brought about by a system of prices of production, monopoly prices, and interest payments. These social relations of distribution engender economic class struggle over wages and hours of work.

Now that concepts have been clarified can it be held that the communist mode of production is developing alongside capitalism in Britain? If by communist mode of production all you mean is the technology required for communism (abundance of the means of subsistence) -- then yes. If by communist mode of production, however, you mean communist production (for use) and social relations (working class dictatorship at the lower stage, classlessness at the higher), the answer must definitely be no.

Let us first look at the production relations. The B&ICO claim rests on the economic activities of the state. Does any production in state enterprises in Britain entail communist relations of production?

To answer this we require some schematic idea of what communist production relations are. We can only form a schematic idea as history does not provide us with any example of a developed communist society. The first point is that neither labour power, means of production, nor the product assume the form of commodities. Secondly, neither labour power, means of production, nor the product are owned or controlled by non-producers; that is to say, the production process is controlled by workers rather than by a class living off surplus labour. Finally, the different social labour processes are brought into conformity by a scientific economic plan in which the distribution of products is calculated on the basis of use values, not exchange values.

Do these conditions hold in the nationalised industries?

No. Firstly, labour power, means of production, and product all assume the form of commodities. Secondly, the production process is controlled by non-producers paid out of surplus value rather than by the workers, and the means of production are owned by the capitalist state, i.e., collectively controlled by and for the whole capitalist class. Finally, there is no economic plan based upon use values, i.e. upon needs. The nationalised industries not only compete with private industry in the open market (e.g. British Airways v. British Caledonian), but even compete on the market with each other -- e.g. coal v. gas v. electricity.

Let us now look at the question of social relations; what would be some features of communist social relations? The basic feature would be the abolition of all exploiting classes, and distribution on the basis of from each according to his ability, to each according to his need. With the abolition of exploiting classes, economic class struggle would vanish. The surplus product would be controlled by the producers, rather than by an exploiting class. The antagonism between mental and manual labour would be abolished. Politically, (advanced) communist social relations entail the abolition of the state.

Are any of these features fulfilled in Britain?

As to distribution relations, in no section of industry does distribution on the basis of need prevail. Nowhere has the abolition of exploiting classes occurred. Even aside from the interest payments by nationalised industries to former owners, the nationalised industries are all managed by bourgeois managers, who receive huge salaries paid for out of surplus value. In none of the nationalised industries has class struggle disappeared, nor has the antagonism between mental and manual labour. This is shown by the organisation of mental and manual workers in the nationalised industries into separate trades unions. And at present the state, far from withering away, is developing into a huge parsitic and all-pervading excrescence on the body of society.

This shows that the B&ICO line, asserting elements of communism are developing in Britain, is pure fraud and sophistry designed to prettify state monopoly capitalism. What state monopoly capitalism does entail is the progressive replacement of private capitalist control over production by collective capitalist control of production exercised via the state. But this in no way marks a <u>break</u> with capitalist social relations, i.e. with capitalist class relations, only a change in their <u>form</u>.

In order to get some idea of how "scientific" has been R. Jones' and the B&ICO's investigation of the communist relations of production that allegedly exist in Britain in the 1970s, we should recall the following facts:-

R Jones' original inspirational assertion (<u>The Communist</u> No:58, Jan 1973) "that communism is an element in the present system of production in Britain" was based on no evidence at all! It was pure "creative Marxism". Since this approach was challenged in the B&ICO, Jones had to beat a hasty retreat and attempt to cover his tracks. In April 1973 we find him admitting that "my suggestion was 'unsubstantiated'" (TC 61, p.3). However, he went on to plead, "it cannot be denied that the meaning intended was that the economic transition from the capitalist mode of production to the communist mode of production had begun."

Having realised that more than mere assertion was required to "substantiate" this theory, he turned for assistance to Marx and Engels' remarks on joint-stock companies, or what Jones calls the "first stage of this revolution". (p.4) Marx and Engels, he stated, had been forced to recognise "that in these new forms capitalism had developed to such an extent as to undermine its own basis, so that the laws of capitalism could no longer operate freely, but that in the absence of socialist controls there was no social means of regulating production. It therefore made social control absolutely necessary." (p.4).

It is worth noticing here how Jones deliberately confuses "social" with "socialist", an increasingly frequently used device of the B&ICO today in its theorising over incomes policy, Parliament, etc.

Similarly, Jones tries to infer that in the "transformation of the actually functioning capitalist into a mere manager, administrator of other people's capital, and of the owner of capital into a mere owner, a mere money-capitalist" (<u>Capital</u>, Vol III, p.436), Marx saw "the breakdown of the capitalist mode of production". (TC 61 p.38). Jones claimed that "Marx shows that the transition (to communism) in fact began with the abolition of the private character of capital and the consequent breakdown of the equalisation of the rate of profit."

Jones claimed that "it is passages such as these which, of all Marx's work, have been most systematically suppressed by dogmatic Marxists", (the dogmatic Marxists being the element that left the B&ICO to form COBI). But it is clear from an examination of Marx's remarks on the question, that the dogma comes from Jones, who had asserted a position and then three months later found himself in need of some Marx quotes to back it up. Jones did not start from Marxist theory plus social realities -- but from inspiration. But his attempt to give existence to his inspiration just does not work. It is perfectly clear from Marx that he was talking about the development of the collective ownership of capital by a number of private individuals from its ownership by single "functioning capitalists". This development was facilitated by the stock-exchange, and in his remarks on this institution Marx makes clear that this marked a strengthening of capitalist production on a modified basis:

"Since property here exists in the form of stock, its movement and transfer become purely a result of gambling on the stock-exchange, where the little fish are swallowed by the sharks and the lambs by the stock-exchange wolves. There is antagonism against the old form in the stock companies, in which social means of production appear as private property; but the conversion to the form of stock still remains ensnared in the trammels of capitalism; hence, instead of overcoming the antithesis between the character of wealth as social and as private wealth, the stock companies merely develop it in a new form." (<u>Capital</u>,Vol III, p.440).

Jones' device is to pretend that when Marx spoke of joint-stock companies developing as "private production without the control of private property", he was talking about the replacement of private capitalist production by social production for use, i.e. by socialism. In fact there is no hint of this in the passages Jones quotes. Marx was talking of the change from <u>individual</u> private ownership of the means of production <u>to collective or "associated" private</u> ownership. Significantly, Jones' quotations from Marx omit the following, which describes the position of the workers under the new form of joint-stock production: "In stock companies the function is divorced from capital ownership, hence also labour is entirely divorced from ownership of means of production and surplus-labour". (<u>Capital</u>, Vol III, p.437).

And this deliberate attempt of Jones' at confusion by misquotation came from someone who described himself modestly as having "no sympathy with the debate-by-gospel schools of Marxism". (<u>Problems of Communism</u>, Spring '74, p.26) in an article pointing out that a previous article of his was "insignificant".

The next ploy in Jones' highly significant series of articles on "communist production in Britain" was to attempt to reply to the charge that his theories were unsubstantiated. In his April 1973 article he therefore included a short section on nationalisation, including selected figures for 1971 "proving" the alleged unprofitability of public corporations. (TC 61, pp.40-41) His claim was that nationalisation "took the abolition of private property a stage further, brought it formally and directly under social control" (p.40); and that "public corporations ... continue to produce and to accumulate with the first premise of capitalist production and accumulation lacking: Profit." (p.41)

A refutation of Jones' arbitrary use of statistics to try to prove his "theory", and criticisms of the theory itself appeared in articles in subsequent issues of <u>The Communist</u> (Nos 63 + 65, June and August 1973) as "Nationalisation and Communism in Britain".

In the Spring 1974 issue of the B&ICO new quarterly theoretical journal "<u>Problems of Communism</u>", Jones retreated again. Rather than refuting or criticising any of the shortcomings in the opposing articles, Jones disarmingly "explained" that his original article of April 1973 "was not, of course about nationalisation... unfortunately (he said) and in the short section on nationalisation I introduced a diversion into what is a quite separate condition, namely the present economic condition of the nationalised industries ... how profitability was involved was not, I admit, explained properly in my article."

In this way Jones abandoned the tactic of trying to prove his case "with an adequate supply of statistics" (TC 61, p.40). What apparently annoyed Jones was that his use of statistics was taken seriously, and refuted. He turned instead to ruminating on the "paradoxes" he perceived in the present operation of nationalised industries. The measures the bourgeoisie had taken in the 1960s to make nationalised industries work efficiently within the state capitalist system were ignored. The only piece of independent research he brought forward was, appropriately enough, from a Fabian economist complaining, inappropriately enough in 1962(!) from Jones' point of view, that people had been beastly in the past to nationalised industries. At best, Jones had to be content with a totally eclectic view of nationalised industries, a view that contains nothing of any use to Marxist political economy, but merely a tautology useful to sophists.

Jones' final fling (we hope) on the subject was to try to quote from the scriptures he affected to despise in support of his case. This time Lenin was his victim. Jones tries to quote Lenin's writings in 1918 to lend support to the view that communist production exists in Britain in 1974. Since Lenin is the best possible defender of himself and critic of Jones' revisionism, we will quote Lenin again, underlining the sections Jones leaves out:

"But what does the word 'transition' mean? Does it not mean, as applied to an economy, (Jones' version = "economics") that the present system contains elements, particles, fragments (Jones' version = "pieces") of both capitalism and socialism? It is not state capitalism that is at war with socialism, but the petty bourgeoisie, plus private capitalism fighting against both state capitalism and socialism... economically, state capitalism is immeasurably superior to our present economic system ... At the same time socialism is inconceivable unless the proletariat is the ruler of the state ... At present, petty- bourgeois capitalism prevails in Russia, and it is one and the same road that leads from it to both large-scale state capitalism and to socialism through one and the same intermediary station called 'national accounting and control of production and distribution'. Those who fail to understand this are committing an unpardonable mistake in economics... " (Left Wing Childishness and Petty Bourgeois Mentality).

"the reason why the present position seems peculiar to many of those who would like to be regarded as Socialists is that they have been accustomed to contrasting capitalism with socialism abstractly, and that they profoundly put between the two the word 'leap'... by 'leap' the teachers of socialism meant turning-points on a world historical scale." (Immediate Tasks of the Soviet Government.)

Jones believes that his quotations from Lenin prove that Lenin thought that communism can begin to develop prior to the dictatorship of the proletariat. Yet when the missing bits are added it is clear that far from arguing that state capitalism was "socialism", or "social regulation of production", or production "for use" (as Jones maintains), Lenin was explaining the advantages of state capitalism in Russia in 1918 over the "present economic system". Lenin explicitly distinguished between

socialism and state capitalism when he listed the various "socio-economic structures". He emphasised that socialism was dependent in fact upon the existence of a proletarian state.

But it is only to be expected that R Jones, as a member of an organisation that has denied the existence of a bourgeois state cannot see the necessity to establish a proletarian state.

We have looked at Jones' views on "communist production" because they now represent the views of the B&ICO, and the adoption by the B&ICO of his views is symptomatic of the decline into revisionism of that organisation. It must be added that the development of revisionism in the CPGB was never as devious as that promoted by Jones in the B&ICO. In fact it raises the question whether it even deserves the name 'revisionism': 'Charlatanism' might be more appropriate.

CONCLUSION.

A scientifically based communist politics requires an understanding of society's economic base. This article has attempted to direct attention towards that base, which has all too often been neglected by British Marxist-Leninists. It has attempted to show that as imperialism develops into its highest stage — state monopoly capitalism — the perpetuation of capitalist exploitation increasingly depends upon the economic functions of the state. One result of this is inflation.

Under state monopoly capitalism, the conditions under which economic class struggle is waged are radically transformed. Because of the intervention of the state, Marx's conclusion, in "Wages, Prices and Profits", that wage increases reduce profits but do not increase prices is no longer true. Whilst the dangers of unemployment have been reduced, thus strengthening trades unions, the inflationary policies used to maintain employment serve to erode real wages. Whilst sections of the bourgeoisie (especially small rentiers) lose through inflation, it is used by big industrial capital to regain what it lost through wage increases.

Communists must not be afraid of exposing the connection which now exists between wage and price increases. It is argued that this will discourage workers from militant struggles for wage increases. Those who hold this line (judging from their papers, the IS and CP) MERELY PROVE THAT THEY CAN CONCEIVE OF NO SOCIETY OTHER THAN CAPITALIST SOCIETY, AND NO WORKERS' STRUGGLES OTHER THAN TRADES UNION STRUGGLES. In full contradistinction to these covert reformists, communists should point out the limitations of trades union struggle [the chief being that wage rises are followed at the local level by attempts to increase exploitation through speed-up, layoffs, etc.; at the national level wage rises tend to lead to unemployment and inflation_7. We do not advocate the abandonment of trades union struggle; on the contrary, we advocate its vigorous prosecution, as it remains the workers' basic defence under capitalism. Without the unions (for all their inadequacies) workers would be amorphous atomised individuals at the mercy of capitalists and their state. Further, and more important at present, trades unions enable workers to be combative rather than passive. They are the first and basic form of organised resistance to capitalism — the primary school of proletarian struggle. True, some unions have a sectarian craft mentality (ASLEF, Boilermakers) and are only at the kindergarten stage; but this only condemns their obsolete brand of unionism, not unionism in general. The reason that communists point to the inadequacy of economic struggle is not in order that this should be abandoned (as the B&ICO does), but in order to show the necessity for political struggle aimed at smashing bourgeois state power and establishing a workers' dictatorship.

Despite there now being a connection between wage increases and price increases, Marx's slogan at the end of Wages, Prices and Profits remains as valid as ever.

"Instead of the conservative motto "A fair day's pay for a fair day's work" they (the trades unions) should inscribe on their banner the revolutionary watchword 'Abolition of the Wages System!'"

POSTSCRIPT

After this article was written but before it was published, an article appeared in the New Left Review by David Yaffe, which covered some of the same ground as this article. Yaffe's article took the form of a critique of Glyn and Sutcliffe's book: British Capitalism, Workers and the Profit Squeeze. He correctly identifies this book as a manifestation of Ricardian socialism rather than scientific socialism and points out that Ricardian socialism, with its emphasis on the distribution of income, leads to economism in politics. The great bulk of his attack on Glyn and Sutcliffe is scientific and corresponds to our own analysis. However, he makes one serious error in his political economy. He says that in calculating the rate of surplus value, wages should be considered after, not before, tax. He claims that the entirety of tax revenue constitutes surplus value. He fails to realise that in the epoch of state monopoly capitalism, the reproduction of labour power begins to be socialised. The wage no longer represents the entirety of necessary labour, for the reproduction of labour power no longer takes place only through personal expenditure, since free state services play a significant part. In addition to this the state acts to redistribute income among the working class via pensions, social security, etc.

Of state expenditure, the only items that unequivocably constitute surplus value are:- Military and Civil Defence, External Relations, Police and Prisons, Parliament and Law Courts, Finance and Tax Collection, Records, Registrations and Surveys, Grants to overseas countries, and Debt Interest. In 1972 these items amounted to only 0.27 of total taxation (1), and in 1962 they amounted to 0.34 (2) of total taxation. They are thus a declining fraction of total expenditure. This is not to deny that the role of the state in appropriating surplus labour is not important or not in need of investigation. It does, however, show that one cannot get very far in such investigation using Yaffe's simplistic approach.

Also, when Yaffe gets round to putting forward an alternative political strategy to that of G & S, he does not get very far. He criticises G & S for offering "little more than increased militancy as a way forward for the working class."

Instead of this he advocates 'a rising scale of wages regulated by housewife and trades union committees'. This, he says, "begins to raise the issue of 'control' in a concrete way." "It would involve housewives in the struggle. And it suggests that the function of such committees should be extended to continued surveillance over prices. This could lead to investigations as to how and why price rises occur. It would show how the anarchy of capitalist production is the source of rising prices. From this the way forward points to the need to establish a society where the consumer is not faced with the continual struggle for existence that such anarchy dictates."

Despite all his previous insistence on the need to combat economism, all he is putting forward here is a revamped economism. Economism and the trades union struggle, Yaffe says, both share the same ideological foundation as that held by the ruling class. This may be true. But get down to what the essence of economism is. When Lenin used the term economism he meant by it the attempt to present as communist political struggle the sectional struggles over wages and conditions of work, plus the political struggle that arises from it over trades union rights and the state regulation of pay and conditions. Economism obscures the difference between trades union struggles and politics on the one hand, and on the other, the revolutionary communist struggle to establish a proletarian dictatorship leading to the abolition of class society. How then does Yaffe's slogan "a rising scale of wages regulated by housewife and trades union committees", fare as a blow against economism.

Very badly, for it in no way steps outside the boundaries of the economic struggle. In content, it is a demand over wages, the addenda about trades union and housewife committees is impractical. But even if it were to be put into practice, it would in no way alter the content of the demand. It is no more than a variation on the theme of cost of living increases for which the unions are already bargaining. As for housewife committees, the formulation of a retail price index requires a level of technical skill in mathematics and statistics, which most housewives lack, but which, on the other hand, trades union research departments do not lack. Some union research officers are quite capable of constructing cost of living indices, which could form the basis for bargaining for all the workers in the union. If Yaffe's committees were set up, they would inevitably be local, and wages struggles based on their findings would be correspondingly localised. But communists are opposed to all forms of localism and parochialism and favour the greatest possible centralisation, coordination and unity in workers' struggles. For it is only through ever greater coordination that workers' struggles can approach to being truly class struggle. To offset its divisive effect, Yaffe's proposal has only the dubious merit of involving a few housewives with a statistical flair in the economic struggle. The necessary expertise, time and drive would generally only be found amongst middle-class housewives, whose purpose in life is far from contributing to the raising of proletarian consciousness or even living standards. If any cost of living index is to be drawn up, it would best be done centrally by the TUC, with regional allowances for areas of high costs of living.

As for this demand raising the issue of 'control' — Yaffe was well advised to put the word in inverted commas. What exactly does it enable workers to 'control'? F... all apart from wages; and in exercising control over these the working class in Britain has been doing just fine, without any advice from Yaffe and his ilk.

The suggestion that by exercising surveillance over prices, housewives would be able to discover how and why prices rise, is just plain ludicrous. The only way they, or anyone else, will ever 'discover' why price rises occur is through sustained study of Marxist political economy. There are plenty of bourgeois economists, who are far more competent than any bunch of housewives, and who indeed have made detailed empirical studies of price movements; but precisely because they lack a Marxist theoretical framework, still are not clear or even agreed on what causes price rises.

With the further suggestion that these housewives — by observing prices would come spontaneously to a scientific socialist viewpoint — Yaffe moves into dreamland. In vain has Lenin pointed out (3) that scientific socialism can never arise spontaneously out of the workers' movement. In vain has Marx pointed out that the price system is a system of illusions from which no clear conception of reality can arise (4). Yaffe abolishes these objections by recourse to women's intuition.

Faced with rising prices, the working class and their wives have shown no inclination to demand the abolition of commodity production; instead they have demanded food subsidies and cost of living wage increases. It seems that people like Yaffe (and compared to most of the British left he is a paragon of Marxist erudition) will never learn that the ideas of scientific socialism must be introduced into the workers' movement by open propaganda and ideological struggle. They cannot be snuck in the back door disguised as economic demands; there is no slogan that can act as an alchemist's stone, turning the base metal of trades unionism into the pure gold of revolutionary communism.

Yaffe says that in his demand for a sliding scale of wages, "what is posed is the struggle for control, the control of the working class over the capitalists to the extent of preventing them running the economy the way that they choose. It poses concretely the fact that the working class are not prepared to take responsibility for capitalism's problems. They want a stable and improving standard of living regardless." He fails to realise that the working class have been raising the question of 'control' in this sense ever since the struggle over the 10 Hours Bill and the factory acts.(5) Any struggle over wages prevents the capitalist class running the enterprises the way they choose. And whilst communists do not want the working class to be made morally responsible for capitalism's problems, (in the sense that we combat the bourgeois ideology that these problems are due to the 'greed' of the working class), there is a sense in which we do want the working class to take responsibility for capitalism's problems. We want the working class to take responsibility for capitalism's problem's in the sense that we want the working class to take over full control of the economy from the capitalist class. For it is only by the working class taking over responsibility for the economy that the working class can achieve its historic objectives. In taking over responsibility for capitalism's problems the working class would have to abolish capitalism and bring about socialism. But there can be no escaping the fact that if socialism is to be achieved, the working class, through the medium of the workers' state, the proletarian dictatorship, must take over responsibility for the problems created by capitalism; of dismantling the market mechanism and ideology as planning and proletarian politics consolidate themselves.

Our objection to the ruling class is not that they want the working class to take responsibility for running the economy — far from it, they are unwilling to surrender one iota of their substantive responsibility — but that like every ruling class in history they are unwilling to give up their responsibility. So long as the capitalist class through their state exercise resonsibility for the economy, it will be run in their interests and workers' economistic demands will just be taken in tow.

So long as the working class devotes its energies to local sectional struggles over the sale of the commodity labour power, it will be unable to progress politically. Communists must attempt to move the struggle beyond free collective bargaining, which takes the working class as it is, divided by capitalist production and the market -- towards coordinated class bargaining -- in which the working class uses its organised power to fight for political solutions to its problems; first at a national level, then at an international level. It is not enough, as Yaffe does, to demand the autonomy of trades unions from the state as that amounts to no more than a return to the previous status quo. The nearest Yaffe comes to developing a genuine communist line on economic questions is when he briefly touches upon the issue of demands placed upon the state by redundant shipbuilding workers. But he again fails to keep in advance of the base and superstructure under capitalism. It is precisely the change from laissez faire capitalism to state monopoly capitalism that makes these demands by shipbuilding workers -- for the state to guarantee full employment -- appear both natural and obvious responses to the situation. These demands do -- after a fashion -- pose the question of social control over production, but they are no more than the ideological and political reflex of the economic development of state monopoly capitalism(6). In advancing these slogans, Yaffe is fighting battles that have already, in principle, been won. The capitalist class accept a modicum of state control because the development of the base has made it historically necessary, and thus the progressive political content of such struggles has been much reduced; they can, and are, being accomodated within capitalism.

We have devoted some space to criticising Yaffe as he is one of the theorists on the left whose thought approaches closest to Marxism -- it is thus all the more necessary that the partial nature of his political advances be pointed out, and subjected to fraternal criticism.

(1) National Income Survey.
(2) National Income Survey.
(3) What Is To Be Done.
(4) Capital, Vols. 1, 2 and 3.
(5) c.f. the Lawrence and Wishart collection: 'Marx and Engels On Britain.'
(6) The highest expression of this mentality is the IWC's Social Audit pamphlet.

Mathematical Appendix

OVERACCUMULATION AND THE LONG-RUN TENDENCY OF THE RATE OF PROFIT

All formulae are in terms of values.

For the sake of mathematical simplicity the following assumptions are made which do not affect the theoretical outcome.

1. Period of production = period of circulation of variable capital.

2. Value produced per worker per production period is equal to unity, i.e. no absolute surplus value.

3. Value of labour power over one production period equals L_t where $1 > L_t > 0$.

4. Capital accumulates only as constant capital, thus social variable capital remains constant.

Definitions: V = social variable capital = a constant.
N_t = productively employed population at time t.
r = natural logarithm of rate of growth of N with respect to time.
C = stock of fixed and circulating constant capital at time zero.
$@$ = rate of accumulation out of surplus value (assumed to be a constant).
P_t = rate of profit at time t.

We thus have

$$N = \frac{V}{L} \qquad L = \frac{V}{N}$$

Rate of surplus value at time t $= \dfrac{1 - L_t}{L_t}$

Mass of surplus value at time t $= N_t\left(1 - \dfrac{V}{N_t}\right) = N_t - V$

$$= N_0 e^{rt} - V$$

Rate of profit at time zero $= P_0 = \frac{N - V}{C + V}$

Mass of constant capital at time $t = C + \int_0^t @(N - V)dt$

$$= C + @N_0e^{rt} - V@$$

Rate of profit at time t =

$$\frac{N_0e^{rt} - V}{V + C + \frac{@N_0e^{rt} - V@}{r}}$$

As t tends to ∞ this tends to

$$\frac{N_0e^{rt}}{\frac{@}{r} N_0e^{rt}} = \frac{r}{@}$$

Thus we have it that the rate of profit tends to move towards a level inversely related to the rate of accumulation, and directly related to the natural log of the growth of the productively employed labour force. As the rate of growth of the productively employed labour force is, in a developing capitalist economy, limited by the rate of population growth -- and this tends to decline* -- it implies that the rate of profit falls towards a lower limit that is itself declining.

* Indications are that British population has begun to fall in absolute terms. From the peak a decade ago, live births in the UK fell below replacement rate during 1973, and the trend continues downward.

Hence relative (economically active and therefore exploitable) population must rise, which explains support from sections of the bourgeoisie for the 'economic equality' demands of Women's Lib.

Statistical Appendix

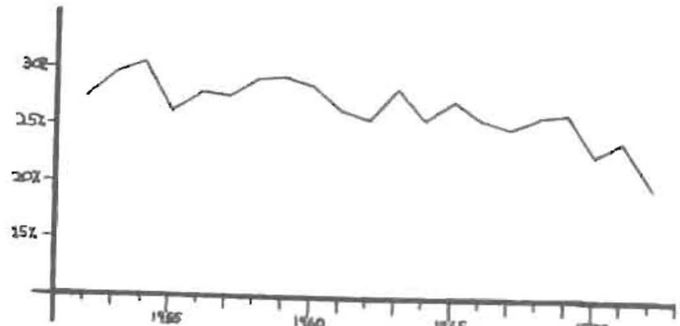

Chart 1: Rate of surplus value in % for UK 1952-72.

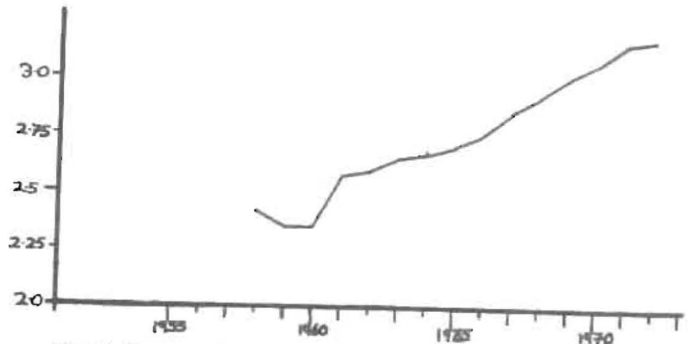

Chart 2: Organic composition of capital in UK 1958-72.

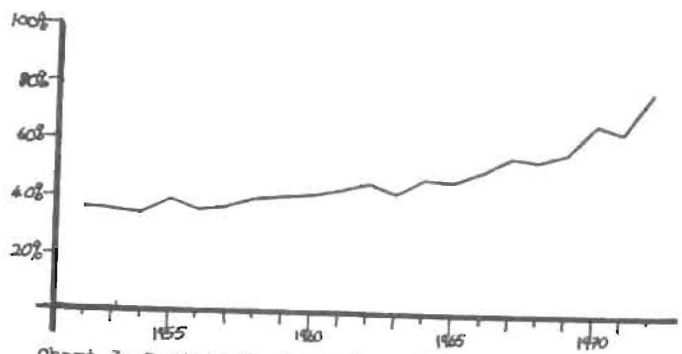

Chart 3: Rent as % of total surplus value in UK 1952-72.

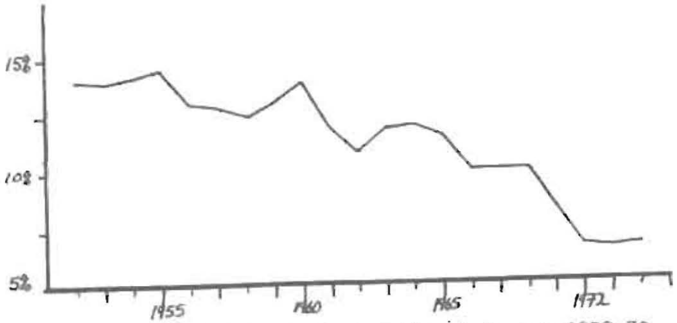

Chart 4: Profit as % of UK National Income 1952-72.

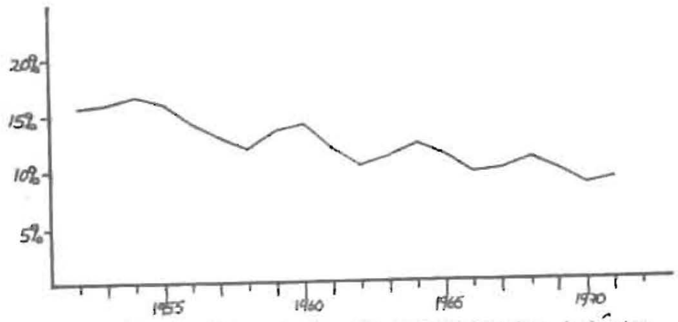

Chart 5: Profit rate for UK manufacturing industry 1952-72.

EXPLANATORY NOTES

Chart 1 shows the movements of the rate of disposable surplus value accruing to the aggregate social capital and to private landowners. Total disposable surplus value was calculated by adding: gross trading profits of companies + gross trading surplus of public corporations + gross trading surplus of other public enterprises + total rent,- stock appreciation - capital consumption, from the national income statistics. This was then divided by income from employment in companies and public corporations. The result is not strictly the rate of disposable surplus value, since the income from employment includes the wages of some unproductive wage labourers. The chart shows that aside from fluctuations due to the trade cycle, there is a declining tendency of the rate of surplus value.

Chart 2 shows the increasing tendency of the organic composition of capital. This was obtained by dividing wages and salaries as calculated above by the stock of

constant capital calculated by adding vehicles, ships, aircraft, plant machinery and other buildings held by the personal, company and public corporate sector, but excluding all holdings by local and central government and excluding all dwellings. The source was the national income statistics. The chart shows that, as predicted by Marxist theory, the organic composition of capital tends to rise.

Chart 3 shows rent as fraction of total surplus value, calculated from national income statistics. It can be seen that the proportion of surplus value going as rent is rising severely.

The factors shown in charts 1, 2, and 3 all tend to depress the rate of profit. It thus comes as no surprise to see that chart 4 (obtained from Lloyd's Bank Review, April 1974) shows declining rate of profit, apart from fluctuations due to the trade cycle.

Table 1: Price and Monetary Indices.

	(1)	(2)	(3)	(4)
1962	72.0	70.9	-	-
1963	73.4	72.5	-	-
1964	76.6	75.2	74.9	68.5
1965	79.7	79.8	80.0	72.9
1966	82.9	82.2	86.1	77.9
1967	85.3	84.6	88.9	82.3
1968	89.5	88.6	91.6	90.1
1969	94.5	93.6	93.3	94.2
1970	100.0	100.0	100.0	100.0
1971	108.2	108.6	109.4	111.2
1972	115.1	116.8	123.4	135.5

(1) Index of prices of consumer goods, base year 1970.
(2) Index of prices of all final goods sold on the domestic market, base year 1970.
(3) Index of currency in circulation, base year 1970.
(4) Index of total money supply (M), base year 1970.

Sources: National income statistics.

Table 1 shows the rise in prices paralleled by the rise in currency circulation and the money supply.

Table 2: Productive Wage Labourers (1,000's).

1962	15,991
1963	15,847
1964	16,082
1965	16,152
1966	16,144
1967	15,682
1968	15,424
1969	15,364
1970	14,903
1971	14,037
1972	13,824

Table 2 shows movements in the number of productive wage labourers. This was calculated by subtracting from the figure given for total employees in the Annual Abstract of Statistics the figures for employees in : distributive trades, financial business, professional and scientific services, and national and local government service. The tendency in Britain is for the population of productive wage labourers to decline — as shown in the mathematical appendix, this would tend to aggravate the declining tendency of the rate of profit.

!!NEW!!

Proletarian Books No:1

William Paul: "The State: Its Origin and Function." First published 1917 by SLP.

Price: £1 + 10p postage.
Cheques and postal orders payable to J. Maisels.

Proletarian Reprint No:1

For You, Mr. Worker!

by William Paul.

(Socialist Labour Party Leaflet No: 2, Glasgow, no date.)

WHERE WAGES AND PROFITS COME FROM!

What are wages? What are profits? Have you ever examined these two very important questions, Mr. Worker? Have you ever tried to answer them, and to know what they mean to you? It is very important that you should do so if you wish to know what part you play in society. Until you clearly grasp these two questions and the correct answers to them, you can never understand the social problem, you can never vote intelligently, and you can never organise properly in the workshop. And what is equally important, you will be unable to understand the function performed by the master class in the production of wealth.

Ah! you say, but these are very deep problems in economic science. And political economy is very difficult, in fact it is the "dismal" science. Be not frightened at the term political economy, Mr. Worker. It is neither difficult nor dismal. It is true it seems a very dry subject when expounded by well paid Professors of Political Economy. But these gentlemen are paid to make it difficult and complex, and, just like you, they have to earn their money. In fact, the more difficult they make it, and the larger the words they use, then so much the cleverer they are supposed to be, and up goes their salary. Has it ever struck you that both the Professor and your master deliberately make the subject of economics difficult and dismal to keep you from studying it? Because if you were to understand one or two simple truths of economics, your outlook on things would so change that the future of the Professor and your master would indeed seem "dismal" and "difficult".

Let us explain!

The science of económics explains how wealth is produced and distributed. That is quite simple, and we assure you it is very interesting too!

APPEARANCES ARE DECEPTIVE.

Now where do wages come from? You think perhaps because you get them from the employer on pay day that his class keeps you. Let us examine this a little closer. But, first of all, remember that science has long ago warned us that things may be exactly the opposite from what they seem.

Take, for example, water. Now it seems at first sight absurd to say that it is composed of two highly inflammable gases — hydrogen and oxygen. This seems incredulous, nevertheless it is a well-known scientific fact. Science is not contradictory. It is only the surface appearance that seems strange. Well, looking on the surface of things would lead one to assume that the capitalist class keeps the worker because he gets wages. But look a little deeper and what do you find? You will find that instead of the working class being kept by the masters, it is the workers who maintain the rich. You will find that while wage-earners are compelled to live in jerry-built houses, eat the cheapest food and be thankful for it, wear the shoddiest of clothes, it is their class which by its labour creates all the wealth, etc., that the masters enjoy. That is to say, instead of your class, the workers (or the working class), being kept by the masters (or the master class), it is your class (or the working class) and its labour that make it possible for the wealthy to live in leisured ease. And what is more, Mr. Worker, so long as your class neglects to study one or two simple laws in political economy, just so long will you and yours be condemned to give the very best to the "toil-nots", and keep for yourselves the cheapest and shoddiest of food and clothing. By refusing to do a little thinking for yourself, you are directly responsible for sentencing your wife and children and yourself to a life of unremitting toil. By permitting the master and his well paid professor to do your thinking, you are keeping yourself in the present condition which offers you low wages for hard work, unemployment, unhealthy conditions, and all the other worries which make up the social problem. Whose fault, then, is it, Mr. Worker?

MODERN MIRACLES.

Supposing my rich uncle, the Right Honourable William Sykes, well-known in the crowbar industry, dies and leaves me £40,000. And supposing I wish to spend £5000 a year — which is the standard rate of wages for Cabinet Ministers — (Mr. Lambert, M.P., says that good carters are more difficult to get than good Cabinet Ministers) — how long would my inheritance last? It would only keep me for eight years. It would mean that at the end of that time I would have to work, like you, in a factory for a few shillings per week. Perish the thought! I could never descend to such a thing, besides it would be blacklegging on my class — the "toil-nots". When any of my friends do any work there is a great fuss in high society. That is why, Mr. Worker, if Lord Softitop handles a pick, works a machine, or does something really useful for a few hours, he is specially photographed for the front page of the "Daily Looking Glass". It is such a novelty to catch one of them working. But as I don't intend to work at the end of the eight years, and I want to keep my money, what must I do? "What!" you exclaim, Mr. Worker, "how can a man

spend money and keep it at the same time?" Ah! that is where a knowledge of political economy comes in. It is quite interesting, and not so dull as the professors say. How can I spend £5000 per year for eight years and still have £40,000 left? Can it be done? Sure!

I call upon a broker. No! not the one who calls for your furniture when you are unemployed, Mr. Worker. The one I call upon is named a stockbroker. He explains to me that by investing my money in a South Wales mining concern — in some Welsh valley with an unpronouncable name, and which I swear never to visit — that it will yield me twelve and a half per cent. That is exactly £5000 per year! I am now a full-blown capitalist! I can spend £100 per week and my capital never gets less!!! While rubbing along on over £14 a day, I may snatch a few hours to lecture working men on the virtues of economy and the glory of toil. Not being greedy, I may even subscribe to the W.E.A., so that the Professors of Economics may prove to the workers how difficult and confusing the science of political economy can become under their tuition. But whatever happens, I can spend £100 a week and have as much money left at the end of the week as when I started! How wise was the religious man who said that the "age of miracles has not passed!" Amen!!

HOW IS IT DONE.

But if you watch the miner at work, if you realise how much he gets for digging the coal, as compared to how much the company gets — then you will understand how it is possible for such people to live without working, and why it is that miners' wages are so low when compared with the wealth they produce. Of course, the Professor of Economics will sling big words and long phrases at you, from which you will be led to believe that the £100 per week above referred to is called profit. But those in the mine know that profit is unpaid labour. It is a glorified, legalised, burgling expedition against the working class. Supposing a miner were to knock down the above shareholder and run off with his £100, could the miner claim it as profit? By no means! He would be a thief and arrested for robbery. What, then, is the difference between the capitalist taking £100 from the miner, and the miner taking £100 from the capitalist? Hush! If you ask such a question you will be called a Socialist. But it is a good question. There is really no difference. But the capitalist keeps a Professor of Political Economy to mix up the question with big words; and he has to pay a lawyer to quote mysterious phrases in Latin. They say there is some difference — but honest and intelligent men know they are not telling the truth.

THE RISKS OF INDUSTRY.

We have seen that the profit comes from coal. Who dig, fetch, and deliver the coal at the place where it is wanted? Are they not the workers? And when an explosion takes place, which class takes the risks, and to which class do the corpses belong? There is only one class that gets killed and injured in the operation of industry, and that is your class, Mr. Worker. But the Professor of Economics tries to show that it is the capitalist that runs the risks of industry! Do you realise why you must do your own thinking? Any Government Blue Book will show you how many hundreds of workers are slaughtered as the result of the selfish desire for high profits. The old highwayman used to hold up his pistol and say, "Your money or your life", but the modern capitalist class holds the pistol of hunger up to Labour and says, "Your money and your life."

WAGES AND PROFITS.

Now your wages represent but a fraction of the wealth produced by Labour, the other part goes in profit. Therefore, we know why it is possible for the wealthy class to revel in the best of everything that this world can produce, now we know why it is the workers get so little even of the cheapest that is made. The Professors may call it Rent, Interest, and Profit, what they will — it still remains the unpaid labour that is wrung from the bone and marrow of the working class. The dividend owners need never go near a mine. They may not know what a pit cage is, it may be a place in which miners keep rabbits or dogs for all they know about the mining industry. But, nevertheless the dividends are always forthcoming. They, the idle rich, perform no useful function in society. They may even despise the workers, especially during a strike, because it is when Labour stops that the dividends stop. That is why they urge that policemen be sent into the strike area. They sometimes make their politicians draft troops into the district to force Labour into the mine to start the dividend-making machine again. Oftimes the workers refuse to be driven, even by the troops. And then the women come out and pick up the dead bodies of their husbands. This has happened many times. It proves how savage the masters are when your class attempts to raise its wages, because that means a fall in profits. This alone proves that your interests are not the same as your masters. If they were why do you join a trade union and they a masters' federation? Why do you live in the crowded East End and they in the healthy West End? Wages and profits come out of the value created by Labour. How can both of you get the bigger share? Your class interests are as wide asunder as the poles, and you are compelled to come together and struggle against each other. Much as you would no doubt like to get away from each other, the system has rivetted both of you struggling together.

WHAT IS CAPITAL?

And what is Capital? It is simply the unpaid Labour of the past being used to rob the workers of to-day. The high salaried Professors assert that Labour could not live without the capitalist. We tell you that you will not live in the real sense of the word until you remove the power of any class that robs you of the best part of your Labour. The wants and desires that makes industry possible are social wants. If all the mine-owners were to die tomorrow, would not society need coal just the same? And could not miners dig it just the same?

You can now realise, Mr. Worker, that the capitalist class does not keep you. You can now grasp the fact that it is the workers who keep the capitalist class. Why is your class called the Working Class? When people say there is a working class, do they not imply that there is some class that does not work? If the workers are the real workers, then the other class, the dividend grabbers, must be the shirkers. These are the two main classes in society, the workers and the wealthy idlers. The class that bleeds for society, and the class that bleeds society.

WHAT ARE YOU GOING TO DO?

If you have followed this little discussion on economics, Mr. Worker, if you now understand the part your class performs in society, what are you going to do to straighten things out?

We invite you to join the Socialist Labour Party, which has been organised to educate and train the wage-earners to end this plundering system of society and replace it by the Socialist Republic — wherein all shall receive the value of their labour.* Join up in the Industrial Workers of Great Britain, in which Labour shall be trained to carry on production, not for a profit-seeking master, but for society wherein all production shall be for use and not for profit.

Write to us and we will send you more explanatory leaflets and pamphlets. The Socialist Labour Party is the greatest educational force in the world, and our movement is the greatest university on the planet. We have no highly paid Professors to garble the truth. Our teachers are in every factory, mill, workshop, and mine. We have Social Science Classes in every part of the country, and lecturers do not wear weird looking gowns and caps, they wear overalls and they are plain working men such as you are.

Join us, we beseech you! Help us in the greatest work ever undertaken on behalf of social freedom.

* But not in the form of individually disposable income (see pp. 52-53). COBI.

What Is C.O.B.I.?

1. COBI is a Marxist-Leninist collective, formed on 1st January, 1974, in secession from the British and Irish Communist Organisation, now become revisionist. Its purpose is to integrate Marxist-Leninist theory with the concrete conditions prevailing in the British Isles, and guided by this concrete development of Marxism-Leninism, to promote the development of communist politics among the working class. It aims, through its activities, to help bring about political and ideological conditions in which the formation of a new communist party will be a meaningful step in the development of communist politics as a link in the chain of proletarian internationalism.

2. We take the natural economic unit of the British Isles as the area of our organisation and oppose any attempts by bourgeois or populist nationalism to fragment working class organisation within the above economic unit. We resolutely base ourselves on the proletariat of the whole British Isles without exception. As a European state develops we shall extend ourselves accordingly.

3. In terms of the development and strength of its economic organisation, the working class of Britain is second to none in the capitalist world; its political and ideological development is, however, much less advanced. In particular it lacks its own political party. Without such a party, a real communist party, it will be unable to decisively defeat the capitalist class, build socialism and advance to communism.

4. The history of the struggle to build such a party in the British Isles has been largely one of failure. The conspicuous exception to this was the Socialist Labour Party of Great Britain, whose emblem COBI has adopted, and whose valuable experience we intend to assimilate.

5. A major reason for this failure has been the inability of revolutionaries in the British Isles to make a complete break with capitalist ideology; their failure to break with the pragmatist outlook of the British capitalist class has led them to underestimate the importance of the Marxist-Leninist theory of scientific socialism. Without the guidance of this theory there can be no communist politics.

6. For these reasons COBI takes as its immediate tasks: the application of communist theory to the conditions of the British Isles, and ideological struggles against opportunist distortions of communism, such as modern revisionism and Trotskyism.

7. COBI demands the maximum ideological unity amongst its members. All members, in addition to engaging in practical work, must improve their understanding of scientific socialism and contribute to the ideological struggle. Nobody will be admitted to full membership of the organisation unless they have demonstrated their commitment to the class struggle and their understanding of scientific socialism.

8. To supplement the efforts of its full membership, COBI encourages a wider group of associate members to work in cooperation with it.

For full elucidation of these premises see Proletarian No:1, and if you wish to know more about COBI contact:

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Now available

Proletarian No:1 - Programmatic Documents.
(including COBI statement on Workers' Control).
15p + 5p postage.

Proletarian Pamphlet No:1 - 'Communism, The Labour Party, and the Left'.
(includes: Communism and Elections, and The Centrality of State Power.)
15p + 5p postage.

All literature available from our mailing address; cheques and postal orders should be made payable to J. Maisels.