The Marxian analysis of society and its development – historical, economic, political – will not die, nor go away, nor even lie down. Today, over a hundred years after the publication of the first volume of Capital, the interest in the ideas of Karl Marx is wider than ever.

There can be no reason for this, other than that the Marxian analysis is still relevant. It alone provides a consistent, comprehensive and applicable picture of the origins and development of capitalism and of how it must be replaced by Socialism.

The Socialist Party of Great Britain is a Marxist party in the sense that we accept the bases of Marx's theories – the Materialist Conception of History, the Labour Theory of Value and the political theory of the Class Struggle. Some years ago we published a pamphlet on the Materialist Conception of History, and we are now complementing it with this publication on the Labour Theory of Value and other aspects of Marxian economics.

The contents of this Special Issue is material published by the Socialist Party of Great Britain since 1920, mainly in the Socialist Standard. Some of this has needed abridgement and updating in minor ways. We offer this work as being of interest to all workers who are concerned to understand the workings of capitalism and to struggle for its abolition.

October 1978
THE greatest problem awaiting solution in the world to-day is the existence in every commercial country of extreme poverty side by side with extreme wealth. In every land where, in the natural development of society, the capitalist method of producing and distributing wealth has been introduced, this problem presses itself upon us. Not only so but the greater the grip which capitalism has on industry the more intense is the poverty of the many and the more marked are the riches of the few.

In observing the conditions of this problem, the fact is quickly forced under our notice that it is the producer of wealth who is poor, the non-producer who is rich. How comes it that the men and women who till the soil, who dig the mine, who manipulate the machine, who build the factory and the home, and, in a word, who create the whole of the wealth, receive only sufficient to maintain themselves and their families on the border line of bare physical efficiency, while those who do not aid in production –the employing class–obtain more than is enough to supply their every necessity, comfort, and luxury?

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01 Marx's Labour Theory of Value

THE LABOUR THEORY of Value is a theory in the science of political economy (now called economics) to explain how the working class are exploited under capitalism and how capitalist society works. Capitalism is the stage in the development of human society characterised by class monopoly of the means of production, with wage-labour and commodity-production.

Thus to be explained are such phenomena as wages, prices, and profits. The Labour Theory of Value is central to an understanding of the economics of capitalism because capitalism is commodity production par excellence, and the Labour Theory of Value basically explains what fixes the value of a commodity. At one time there were rival theories of value, but now academic economics tends to deny the need for such a theory.

All you need, they say, is a theory of price. We shall see, however, that prices cannot be explained without recourse to the concept of value. First, some definitions. Wealth is anything useful produced by human labour from materials found in nature. In capitalist society, Marx said, wealth takes the form of an immense accumulation of commodities. A commodity is an article of wealth produced for the purpose of being exchanged for other articles of wealth. Thus commodity production is an economic system where wealth is produced for sale, for the market. In its simple forms it exists only on the outskirts of non-commodity producing societies where wealth is produced directly for use, either by the producers for themselves or by a subject class for their masters. In the beginning commodities were bartered, but as commodity-production developed one commodity came to assume a special role: it became the universal equivalent, for which all commodities could be exchanged and vice versa; it became, in short, money. Here we have a problem for the science of political economy: what determines the proportions in which commodities exchange one for the other?

One conclusion we can draw from the fact that commodities consistently exchange for one another in fixed ratios is that all commodities must share some common characteristic to a greater or lesser degree. What? As articles of wealth all commodities share two characteristics: they are useful and they are products of human labour. Which of these could provide a standard? Some have suggested usefulness (or utility), but the trouble here is that the same article can be useful to a greater or lesser degree to a different person. Usefulness is a personal matter: a personal relation between the commodity and its consumer. So utility would be a changing; subjective standard and could not explain why commodities consistently exchange at stable ratios. We are thus left with commodities as products of human labour.

Unlike usefulness the amount of labour embodied in a commodity can be objectively measured: by how long it took to make it, for instance. However, all wealth, not just commodities, shares this characteristic of being products of human labour.

What we want to know is how do commodities differ from other forms of wealth. Wealth, we know, only takes the form of commodities under certain social conditions, specifically when it is produced for sale. Similarly with labour (used-up human energy): under the same social conditions it becomes “value”. Thus value is not something you can find in the physical or chemical properties of a commodity, for it is a social property, a social relation. However, as value only expresses itself in exchange, as exchange-value, this social relation appears as a relation between things. This is what is behind Marx’s writing about the “fetishism of commodities”. Price is the monetary expression of value.

Labour, says the Labour Theory of Value, is the basis of value. But how does labour determine the value of a commodity? The value of a commodity, said Marx, is determined by the amount of socially necessary labour contained in it or, what is the same thing, by the amount of socially necessary labour-time spent in producing it from start to finish. Note that the Labour Theory of Value does not say that the value of a commodity is determined by the actual amount of labour contained in it. That would mean that an inefficient worker would create more value than an efficient worker. By socially necessary is meant the amount needed to produce, and reproduce, a commodity under average working conditions, e.g. average productivity, average intensity of labour. For instance, in the British coal industry the average output is about 43cwts. per man shift and there are approximately 230 pits in operation. In some of these output per shift will be above 43cwts. and in others below, but the value of the coal is not fixed by the labour of the workers at pits of either sort. Its value is the social average brought out by the market. This means of course that what is socially necessary is continually changing. The whole process of producing the commodity coal also includes the labour of workers outside the pits, who are producing materials necessary for coal mining.

Under capitalism nearly everything is a commodity, or takes the form of a commodity, is bought and sold. This qualification is necessary to counter the argument often advanced against the Labour Theory of Value that some things that are bought and sold either are not products of labour or sell at prices quite out of proportion to the amount of labour embodied in them, e.g. land and objects of art. Land, under capitalism, has a price which, in its pure form, is merely the capitalisation of its rent. Land has no value as it is not the product of human labour. Paintings and antiques are indeed products of human labour but are not really commodities because they cannot be reproduced; the concept of “socially necessary labour” therefore has no meaning with reference to such articles. One silly objection is: why is a lump of gold from a meteorite valuable, when there is no labour embodied in it? Actually, this is a confirmation of the Labour Theory of Value since its value is the same as that of gold produced under normal conditions. If gold were to regularly fall from the skies then its value would drop to what is needed to collect it.

Another thing that under capitalism takes the form of a commodity is labour-power (the ability of human beings to work, human energy). Indeed this fact is the basis of capitalism since it presupposes the separation of the producers from the ownership and control of the means and instruments for producing wealth. But there is one very important difference between labour-power and other commodities. Labour-power is embodied in human beings who can think, act and struggle to get the best price for what they are selling. Otherwise its value is fixed in the same way as that of other commodities: by the amount of socially necessary labour spent on creating it and recreating it. The labour spent on creating a man's labour power is that spent in producing the food, clothing, shelter and the other things needed to keep him in a fit state to work. Thus the value of an unskilled man's labour-power is equal to about enough to keep him and his family alive and working. Skilled men get more because it costs more labour to produce and maintain their skills. When the worker finds an employer he is paid a wage, which is the price he is paid for allowing the employer to use his labour power for, say, 8 hours. Wages, then, are a special kind of price; they are the monetary expression of the value of labour-power.

Labour-power has a peculiar characteristic. Because wealth can only be produced by human beings applying their mental and physical energies to materials found in nature and because labour (the expending of labour-power) is the basis of value, labour-power has the property of being able to produce and create new value. Let us assume that our worker's labour-power is worth 4 hours labour a day. After he has worked 4 hours does he stop? Of course not. Under his contract he must work for another 4. Since he is working in his employers' place, with his employers' tools, machinery and raw materials anything he produces belongs to his employer. Thus, in this case, the employer gets 4 hours free labour. This is the source of his profit, which he shares with his creditors as interest and with his landlord as (ground) rent (and with the State as taxes). So the source of all Rent, Interest and Profit is the unpaid labour of the working class.

Let us look into this process of exploitation a little closer. The first point to notice is that it takes place at the point of production. Workers are exploited at work. When a worker receives his wage (or salary, another name for the price of labour power) he has already been exploited. He cannot therefore be exploited again by moneylenders or shopkeepers or landlords or taxmen (though of course they can rob and cheat him, and he them, but that's a different matter). So-called secondary exploitation is a myth.

For Marx capital, like value, is not a thing but a social relation; indeed it is value or rather a collection of values. Only under certain social conditions do the means of production become capital, specifically, when they are used to exploit wage-labour for surplus value. Thus we find Marx describing the process of capital accumulation as the "self-expansion of value". Capital, in its pure form, is money-capital. A capitalist invests his capital, say, in producing cotton textiles. He must advance his capital to buy a factory, textile machinery, raw cotton, etc, and also to buy labour-power. His capital can be divided into categories. Fixed capital is the buildings and machinery that are not consumed entirely in the production process; circulating capital is the raw materials and labour power that are. More significant from the socialist point of view is the division into constant and variable capital. Constant capital is that invested in the buildings, machinery and raw materials.

In the process of production their value, or a part of their value, is only transferred to the finished product. Variable capital is that invested in labour-power and is so called because this is the part of capital that expands. Labour-power not only transfers its own value and is instrumental in transferring that of the constant capital, but it also creates new value. We see then, that machines do not create value. All they do, and this only when set in motion by human beings, is transfer part of their own value (itself of course a past creation of the work of human beings) to the finished product. Even capitalist accountants recognise this: the part of the cost of a commodity they put down to depreciation is to cover the value transferred from the buildings and machinery.

We saw earlier that part of the working day is spent in producing the equivalent of the labour-power used up, and the rest in producing surplus value for the capitalist. The first part of the working day Marx called necessary labour (not to be confused with "socially necessary labour") and the second surplus labour. We are speaking here in terms of parts of the day. This is not to be taken literally otherwise you make the mistake of the economist in Marx's day who opposed the Ten Hour Bill to limit the working day on the grounds that all the profit was made in the last hour! In fact, surplus value is produced each moment the worker is at work.

Marx called the ratio of surplus labour to necessary labour (which is the same as the ratio of surplus value to variable capital) the rate of surplus value, or rate of exploitation (s/v). It is obviously in the interest of the capitalist to increase the proportion of surplus labour to necessary labour. There are two ways in which this can be done. The first is by lengthening the working day itself. The extra surplus value so produced is called absolute surplus value. The other way to increase the ratio of surplus labour to necessary labour is to reduce the necessary labour. The crudest way to do this is to reduce the workers' standard of living by reducing wages, which of course the employer will always do if he can. But the same result, of reducing the proportion of necessary labour, will occur if productivity is increased so that, for example, the labour time necessary for the production of the articles the worker needs is reduced and their prices fall, with the consequent reduction of the value of labour-power without reducing the worker's standard of living. The extra surplus value so produced is called relative surplus value.

How do the complications of capitalist production affect the value of a commodity? The value of each unit of cotton textiles turned out will be made up of the value of the raw materials, the value of the machinery transferred, the value of the labour power and the surplus value, or the commodity's value = c + v + s, where c is the part of the total constant capital (C) transferred to the product. The rate of profit is S/(C + V). The value of a commodity is fixed by the amount of socially necessary labour embodied in it from start to finish, not just in the final stage of its production. Thus it is inaccurate to say that agricultural workers produce food or that car workers produce cars. Production under capitalism is a social process in which all workers take part. An important corollary of this is: the capitalist class as a whole exploits the working class as a whole. The worker is not exploited just by his particular employer, but by the whole class of capitalists.

It may come as a surprise, after all that has been said about commodities exchanging in fixed proportions according to their values, to be told that under capitalism commodities do not sell at their values. But this is in fact the case. This is why it is important to understand that the Labour Theory of Value is not a mere theory of price. There are two simple reasons why price and value can differ: prices fluctuate with supply and demand, and with monopoly, a commodity will sell at above its value (or, with subsidies, below its value). The third reason is more complicated but must be grasped if you want to understand the observable workings of capitalism, e.g. what is behind the pricing policies of businesses. Those who decide on prices, don’t know what the value is, and don’t need to. What do they act or, then?

We saw that the capital advanced can be divided into constant and variable and that it is only the variable capital that increases to create the surplus value. The ratio C/V Marx called the organic composition of capital. Given the same rate of exploitation (s/v) in all industries, if all commodities sold at their value this would mean that the highest rates of profit should be made in the technically backward, labour-intensive industries. But is this so? Not at all; the tendency is rather for capital to get more or less the same rate of profit wherever it is invested.

How to reconcile a labour theory of value with the averaging of profits was a problem that baffled Adam Smith and Ricardo. But Marx solved it in the only way possible: by abandoning the assumption that all commodities sell at their values. Critics have called this the “great contradiction” in Marx’s work, but it is nothing of the sort. As we have seen capitalist production and circulation is a social process: each individual capitalist does not exploit only his own employees but the whole capitalist class exploits the whole working class. Each capitalist employs so many workers who produce so much surplus value.

Instead of going to the individual capitalist this surplus value goes, as it were, into a pool from which it is shared along with the rest of the surplus value amongst all the capitalists in accordance with how much capital they have invested. (This explains why, incidentally, a fully automated factory would still make a profit.)

Consider the consequences of this on prices. Say s/v is 100 per cent and that there are three sectors with different organic compositions:

	C	V	S	value	rate of profit
A	80	20	20	120	20%
B	40	60	60	160	60%
C	60	40	40	140	40%

With no averaging of profits B is the most profitable sector, but with an averaging we get:

	C	V	S	profit	value	price
A	80	20	20	40	120	140 (above value)
B	40	60	60	40	160	140 (below value)
C	60	40	40	40	140	140 (at value)

Marx called this selling price, which is made up of cost plus average rate of profit, the price of production. This, in fact, is how businesses do operate and is regarded by academic economics (who, as Marx pointed out, merely take a businessman's view of economic events) as enough. But it is not. It is all very well talking airily about price being set at cost plus "normal profit". But what is normal profit? Something fixed by custom! This is only what it appears to be. Only the Labour Theory of Value, with its concept of value and surplus value, based on labour, can adequately explain why the "normal" rate of profit is, say, 10 per cent rather than 15 per cent.

02 What are your wages?

IF IT weren't for the money, most of us would stop work tomorrow. After all, wages are the common means of getting work out of men and women. You can hear some of them call it "bloody slavery". They are not trying to be accurate-only to express their feelings.

There is very little real slavery in the world today. It is a very old-fashioned and inefficient system of getting work out of people. The big empires of the past were built up on slave labour; and there was a brief flare-up of it again in America when the virgin land of the new continent was being opened up to agriculture. The slave was caught or bought, like a horse or a machine; and he was fed or flogged when necessary in order to get the maximum of work out of him. Slaves were not really regarded as people: they were denied citizenship; and their owners usually had power of life and death over them. But the quality of work they could do was generally very low; and there is a snag to owning slaves: they have to be fed and housed even when there is no work for them to do.

Although there has always been a certain amount of it, getting work out of people for wages is fairly new as a universal system. Almost everywhere in the world the slave empires were overthrown by the much less highly organised system of feudalism. The feudal serf was a “free” man owning his own bit of land; but to protect themselves from attack serfs clustered round the strong-arm men, the lords of the manor; and they paid for their “protection” by working on the land or fighting the battles of their lords. In the time that was left over, they were able to work their own strips of land. A tenth of what they produced was demanded from them by a highly organised church, which operated in league with the lords to prevent serfs from running away. It is debatable, therefore, whether serfs were much better off than slaves.

With the rise of capitalism, however, the serfs were gradually freed entirely-by having even their strips of land taken from them. They were no longer forced to work for anybody-except by the pressure of starvation. As it was, they offered themselves for work eagerly, even desperately at times, for there was no other way of getting food, clothing and shelter, except by wages. At last, in capitalism, the system of buying and selling became universal. Everything was for sale. Anything could be bought. The problem for the great mass of humanity was that they had nothing left to sell except their ability to work.

Most of us feel we have the right to live. The trouble is that hardly any of us have got “private means”. We can only get the means to live by “selling ourselves”. It is rather like prostitution; but we have no choice. Because of this, a lot of workers talk about the “right to work” almost as though it were the same thing as the right to live. They take part in marches and demonstrations when jobs are scarce, insisting upon their right to work. They feel offended if they are told that they are demanding the right to prostitute themselves. Actually, of course, workers have no legal right to work. Nor will they ever have. All they possess is a commodity-the ability to work. Millions of people throughout the world own nothing else.

This is what distinguishes them as a separate economic class, the working class. They constitute about ninety per cent of the civilized population of the world. Of course, in the more advanced countries they may own their own house and their own car; but economically their class is determined by the fact that they have to prostitute themselves throughout their useful lives in order to keep these things and live from day to day.

Obviously, if workers are sellers of the ability to work, there must also be a class of buyers. Occasionally and briefly, one worker may buy the services of another to do a job; but as he only has his wages with which to pay wages it cannot be general. Only those who possess the wealth which can be worked upon to produce more wealth, can really afford to pay wages. But why should anyone want to hire us-especially if they already have the wealth, and we have none? Why should anyone pay us wages for the use of our mental and physical energy? There can only be one reason: to increase their wealth further by our work. And not only that: to increase it by more than the cost of our wages.

Wealth used in this way to make more wealth is called capital; and those who use it in this way are called capitalists. So the bulk of humanity is divided into two classes: sellers and buyers of labour power; workers and capitalists.

So wages are really the price paid for our ability to work. The very existence of wages proves the division into classes, wherever it is found. Every week or every month our pay packet or cheque reminds us of the fact that we belong to the class which can only secure the right to live by offering themselves for work by prostituting themselves to those who find it convenient to buy their abilities-the world's capitalists.

Such a situation inevitably produces conflict. In buying and selling, the seller always tries to raise the price, while the buyer tries to reduce it. There is no let-up. And the very point of conflict is the wage packet itself. The quickest and surest way for the capitalist to increase his profits is by cutting wages. And yet the worker's wage is his only means of living, so that he has no choice but to struggle-not only to raise his wages, but to prevent them being depressed.

A Fair Day's Pay

For the last few years, the talk has all been of "a fair day's pay for a fair day's work". However, there is really nothing "fair" about the wages system at all. It is always loaded overwhelmingly in the capitalists' favour. Although they often do increase their profit by fighting off wage demands, this is not the main method of making profit. Capital finds it profitable to employ labour even when wages are not depressed. And this is generally the case in Britain today. Wages are inadequate, of course, but they are relatively about the highest that they have ever been.

How, then, does the capitalist make profits? Purely by using the wages system. Actually, the wages swindle is very simple, but very effective. And, what is more, it is perfectly legal. If you can get hold of enough capital, you can start operating it tomorrow-if you can get hold of enough capital.

This is the way it works: the capitalist simply hires a man's abilities for the day, or the week, or the month; and then he gets as much work out of him as he possibly can during that time. Now, ever since the dawn of civilization it has been possible for a man to produce more than he needed for his own keep. That is what made slavery a possibility in the first place. And, since factory organisation, and then mechanisation, and now even automation, the possibilities have risen. But the capitalist does not pay for the actual value that the man adds to the raw materials by working on them. All that he pays for is the man's keep. Loosely speaking the worker may have produced enough by Monday or Tuesday, to pay for his keep; but the capitalist keeps him turning out wealth until Friday, simply because he has bought the worker's labour power for that period.

If the workers complain that this system is not fair at all, it is easy to point out to them that this is a buying and selling arrangement. They have something to sell: their ability to work. And the capitalist is prepared to buy it. Profit is simply the difference between a man's wages and the value of what he actually produces. All this vague trade union talk about the workers having a right to a share in the profits simply shows a total lack of understanding of what profits are and what wages are. The workers have no right to a share in the profits at all, in the capitalist system.

How Much Are you Worth?

There is no direct connection at all, then, between the amount that a man produces and the size of his wage packet. Neither is there any real connection between his wages and how hard he works. This is often difficult to see because of the piece-work systems, bonus schemes, and high overtime rates, all of which make it look as though the harder you work, the more money you make. If there really was such a connection, it would mean that a top company director, with his salary of, say, £100,000 was working about thirty times as hard every day as the average worker-quite impossible.

By the time that most of us get home after a day's work, we are pretty well exhausted. It takes a real effort to get washed and changed to go out to a cinema or the pub. And now that television has brought the cinema to us, millions of us are content to sit in an armchair for three hours and then go to bed. We have put out, during the day, all the physical, emotional and mental energy we are capable of, without running ourselves down into illness. Even this happens fairly often with many people.

So we have done our fair day's work; and we have got our fair day's pay. And there is a direct connection between them. This commodity that we have to sell-our ability to work is used up at the end of the day. We have sold it. And it costs money to renew it-money to keep up a certain standard of food, clothing, shelter and recreation to make us able to face another day, or another Monday morning. What is more, we were reared with a certain amount of care in the first place, educated at a certain cost, and probably trained, too.

All of this makes up the true cost of production of our commodity-the ability to do a certain type of work. This is what our wages pay for-the cost of producing our labour power. This is all that is ever meant by "a fair day's pay" – enough for us to keep on producing the ability to work for the capitalist class, throughout our lives, until our commodity loses most of its worth through old age. It has also paid for the cost of producing children to provide another army of wage-slaves to take out places when we are gone.

The wages system has proved so successful that it has spread to all the major countries of the world, and is still spreading. And, in between the wars and slumps that it causes, it works like a charm. The surplus that the workers produce is largely used to buy more machinery and plant and materials to extract more surplus from their efforts, and to bring more peasants and primitives in "undeveloped areas" into the system. The new machines produced by workers in one industry serve to step up the amount of profit made out of workers in another. The buildings and plant set up by one generation are there to extract surplus value from the next.

All the time, and all over the world, the workers are building up more and more wealth none of which belongs to them. By their very work they deprive themselves more and more of the wealth which is in the world, and so set the capitalist class higher and higher above them, with greater and greater powers of oppression. And most workers accept this system of legalised robbery. (It is only legal because capitalists made the laws.) They accept it every time they press for their "right to work".

They accept it when they talk of “a fair day’s pay for a fair day’s work”, and when they think that “co-operation between both sides of industry” is a good thing, they are showing their approval of being robbed.

Of course, they are being brainwashed into accepting it. They don’t realise that they can abolish the wages system. They are usually so relieved and glad to get their pay packet or their cheque, when it finally comes, that they forget they are holding in their hands the proof that they have been taken for suckers once again in the biggest swindle of all time.

What are your wages?
(APRIL 1965)

03 Labour time vouchers

THE first to suggest the use of labour-time vouchers instead of money was Robert Owen in 1820. The Owenites stood for a society of co-operative communities. Each community would own its own means and instruments of production and each member of a community would work to produce what had been agreed was needed and in return would be issued with a note certifying for how many hours he had worked; he could then use this note to obtain from the community’s stock of consumer goods any product or products which had taken the same number of hours to produce. Owen believed that this co-operative commonwealth could begin to be introduced under capitalism and in the first half of the 1830s some of his followers established “labour bazaars” on a similar principle: workers brought the products of their labour to the bazaar and received in exchange a labour-note which entitled them to take from the bazaar any item or items which had taken the same time to produce, after taking into account the costs of the raw materials. These bazaars were failures but the idea of labour-time vouchers (or “labourmoney”) appeared in substantially similar forms in France with Proudhon and in Germany with Rodbertus and is one source of currency crank theories.

Those who advocate labour-time vouchers can have two different circumstances for their use in mind. Like Robert Owen, they can advocate their use within the context of co-operative ownership and production for use or, like Proudhon, within the context of private ownership and production for sale. Marx exposed as currency cranks those who wanted labour-time vouchers and buying and selling.

Where goods are produced for sale, he pointed out, sooner or later one commodity will emerge as one which can be exchanged for all the others. This special commodity is of course money and its appearance signifies the end of barter. To perform this role of the medium of exchange the commodity must itself have an exchange value. Money is basically a special commodity, a fact which is obscured by the later evolution of money where almost worthless coins and notes have come to circulate as tokens for the money-commodity.

Those who advocate the abolition of money and its replacement by labour-time vouchers while retaining production for sale are thus, said Marx, quite confused;

wherever there is production for sale one commodity must become money (see his comments in his Critique of Political Economy on the theories of John Gray).

Within the context of common ownership and production for use, however, labour-time vouchers are quite feasible. Then they are not money at all, but merely a method of sharing out consumer goods. As Marx said of the Owenites' plan for a co-operative commonwealth:
"Owen's "labour-money", for instance, is no more "money" than a ticket for the theatre. Owen presupposes directly associated labour, a form of production that is entirely inconsistent with the production of commodities. The certificate of labour is merely evidence of the part taken by the individual in the common labour, and of his right to a certain portion of the common produce destined for consumption."
(Capital, Vol. 1, Moscow, 1961. pp.94-5)

Engels says much the same in his comments in Anti-Duhring on Owen's labour-notes.

The German Social Democrats of the 1860s and 1870s inherited the idea of distribution according to labour-time from Rodbertus. They envisaged a system where, with the means of production vested in the community, workers would be given a labour time voucher entitling them to a share of the social product; thus they would, as Lasalle put it, get "the full product of their labour". This phrase is confused because, if everything produced in a given period is distributed in full for consumption, then nothing would be left over to renew and expand the means of production or to store in the case of emergency.

This point was made by Marx in one of his criticisms of the Gotha Programme which was adopted by the German Social Democrats in 1875 when the followers of Lasalle united with the group with which Marx and Engels had been working. In the course of this criticism Marx made his well-known statement about labour-time vouchers in Socialism (*"not as it has developed on its own foundations, but … just as it emerges from capitalist society"*): *"The individual producer … receives a certificate from society that he has furnished such and such an amount of labour (after deducting his labour for the common funds), and with this certificate he draws from the social stock of means of consumption as much as costs the same amount of labour. The same amount of labour which he has given to society in one form he receives back in another." (Selected Works, Vol. 11, Moscow, 1958, p.23)*

Supporters of state capitalist Russia have used this passage to try to show that Marx thought that money could exist in Socialism. This is so much nonsense since elsewhere Marx specifically stated that labour-time vouchers were not money (see his comments on Owen quoted earlier):
"The producers may … receive paper vouchers entitling them to withdraw from the social supplies of consumer goods a quantity corresponding to their labour-time. These vouchers are not money. They do not circulate." (Capital, Vol. II, Moscow, 1957, p.358)

Marx nowhere states that labour-time vouchers were the only method of distributing wealth in Socialism; they were only one possible method.* *The actual method adopted would depend on the circumstances (Capital, Vol. 1, pp.78-9).*

Alternatives were suggested, as for instance by Edward Bellamy in his Looking Backwards written in 1887. He wanted everybody in Socialism to be issued with a credit card entitling them to obtain an equal amount of consumer goods. In any event, later on in his criticism of the Gotha Programme Marx made it quite clear that if labour-time vouchers were used in Socialism this would be a temporary measure imposed by the comparatively low level of technology. In time, he saw, when the "*springs of co-operative wealth flow more abundantly*" Socialist society could abandon labour-time vouchers (or whatever) and go over to *"from each according to his ability, to each according to his needs"*, that is, to free access to consumer goods.

In 1875 the then existing level of technology might well have meant that many consumer goods would unavoidably be available only in limited quantities for some years after the establishment of Socialism. But in the hundred years since, technical progress has made it possible for the springs of co-operative wealth to flow more abundantly than Marx could have foreseen so that free distribution-to each according to his needs-can be implemented almost immediately after Socialism has been established.

Potential abundance has made the idea of labour-time vouchers quite outdated. *Baran and Sweezy are quite wrong when they write in their *Monopoly Capital (Pelican, p.325)* that "*Marx emphasised in his Critique of the Gotha Programme that the principle of equivalent exchange must survive in a socialist society for a considerable period as a guide to the efficient allocation and utilization of human and material resources"*. For Marx there was no "must" about labour-time vouchers (and so more or less "equivalent exchange"); they were just one possible way of allocating consumer goods before free access could be introduced.

(MAY 1971)

04 Capital accumulation

ALL productive concerns commence with the investment of money in certain ways. The conversion of a sum of money into means of production and labour power is the first step taken by the quantity of value that is going to act as capital. This conversion takes place on the market, within the sphere of the circulation of commodities, that is within the sphere of buying and selling. The second step, the process of production, is complete when means of production have been converted into commodities whose value exceeds the value of all items used up in the productive process, and thus contains the original value (or capital) advanced plus a surplus value. This whole process is constantly repeated and forms what is called the circulation of capital. Money into commodity into money, the latter being greater in quantity than what was originally invested.

Capital invested in production takes two forms – Constant capital and Variable capital. Constant capital comprises all those things whose value reappears without change in the new article; such as raw material, machinery, buildings, etc. Variable capital consists solely of the physical and mental energies of the labourers; it is labour power whose value plus a surplus appears in the new article-because the consumption of labour power, the activity of the labourer, adds more value than is incorporated in its cost of production.

Means of production can never add more value to a product than they originally possessed. Further, means of production only become capital under certain conditions. A machine is not capital because it is a machine. It only becomes capital when it is used to extract surplus value, unpaid labour, from the workers.

The rate of profit given in the returns of commercial companies does not by any means give the real picture of the amount of unpaid labour wrung from the workers employed by those companies; the rate of exploitation is far higher. The rate of profit is the relation between the surplus value and the total capital, but the rate of exploitation is the relation of the surplus value to the amount of capital invested in labour-power, wages and salaries, because it is solely the labourers' work that has produced the surplus value.

Let us suppose that capital to the amount of £1,000 has been invested and that this investment has taken the form of £500 for machinery, etc., and £500 for wages and salaries. Let us further suppose that this investment has resulted in the production of goods to the value of £1,100. The rate of profit is the relation of the extra £100 to the £1,000 capital invested, that is 10 per cent.; but the rate of exploitation is the relation of the £100 to the £500 invested in wages and salaries, that is 20 per cent. Thus the rate of profit conceals a much higher rate of exploitation.

The capitalist concern engaged in the production of surplus value shares this surplus value with landowners, moneylenders, and others; for the purpose of this article, however, we assume that the original capitalist owns the entire surplus value. The way surplus value is split up into rent, interest, profit, etc., has no bearing on the particular matter we are discussing.

If the surplus value produced serves only as a fund to provide for the capitalists' personal consumption then it is only simple reproduction, there is no industrial expansion. It would be just as if a farmer only sowed enough seeds each year to provide for the needs of himself and his family. This of course is not the way capitalist production works or the gigantic trusts of today would not have come into existence. It is the constant reconversion of surplus value into capital that is the basis of capitalist expansion. Accumulation of capital resolves itself into the reproduction of capital on a progressively increasing scale. Accumulation of capital is really accumulation of surplus value-unpaid labour.

In the productive process the worker is not paid until after he has produced; he produces his wages at the same time as he produces surplus value. Thus it is the labourer's own labour, realised in a product, that is advanced to him by the capitalist in the form of a wages fund. Under Feudalism the peasant worked, say, three days on his own land and three days on his lord's land. The first three days kept him and the second three days kept his lord. When the lord took away the peasant's land, cattle, etc., the latter had to work as a wage labourer, but still three days covered his own keep and three days his lord's. From the moment when forced, or customary, labour was changed into wage labour the labour fund took the form of capital advanced as wages by the employer.

The amount of capital originally invested by the capitalist disappears after a time and his declared capital only represents surplus value, accumulated unpaid labour. The surplus value has been capitalised and served to buy means of production and labour power to produce further commodities and at the same time surplus value.

Thus the ownership of past unpaid labour has become the sole condition for the appropriation of living unpaid labour on a constantly increasing scale. The more unpaid labour the capitalist has accumulated the more he is able to accumulate. This entirely disposes of the claims made by capitalists that their wealth is the result of their own efforts.

One of the conditions of commodity production was the exchange of equivalents but it has become the very opposite because there was only an apparent exchange of equivalents. In appropriating the surplus value the capitalist is taking without equivalent a portion of the labour of the workers.

The laws of property that are based on commodity production work out as the right, on the part of the capitalist, to appropriate the unpaid labour of the workers and make it impossible for the latter to own their own products; these laws have converted the workers into a propertyless class.

Accumulation of capital is obtained by increasing the mass of surplus value produced by the worker and therefore that portion of it that is capitalised. To attain this end wages are forced down as much as possible; piece work is introduced with a progressive lowering of the price paid for work done; hours of factory operation are increased by shift work which lessens the proportion of constant capital needed to provide a given amount of surplus value; new machinery and methods are introduced which results in more production at the same cost.

The greater productivity obtained means, however, a greater quantity of raw material worked up in the same time and hence more machinery, larger factories, improved means of transport, and so forth. This in turn means that a smaller quantity of labour is required in proportion to the means of production. As the capitalist is not concerned with the production of useful articles but only with the accumulation of surplus value he forces the productive powers to the limit and also builds up ever greater masses of constant capital to offset the shrinking number of labourers required to produce a given quantity of products.

The accumulation of capital, with the introduction of improved machinery and methods, involves the periodical growth of the unemployed army, at the same time this unemployed army is a necessity. In order to meet the needs of accumulation the capitalists must have at hand a reservoir of labour upon which they can call at any moment for the purposes of expansion and can discard when no longer required.

(NOVEMBER 1948)

05 The rate of profit

THE rate of profit measures the return on invested capital over a given period and is usually expressed as a percentage. So, if a capital investment of £ 100,000 turns over in a year and the profit is £20,000 then the rate of profit is 20,000/100,000 or 20 per cent per annum.

If a capitalist was starting from scratch he would have to use some of his original £100,000 to buy a factory building and to equip it with machines. He would then have to buy raw materials and pay for electricity to power the machines. Finally he would have to use some of his capital to hire workers and pay their wages. Let us assume that the factory, the machines, the raw materials and the electricity cost him £80,000 and that his wages bill comes to £20,000.

Marx isolated the capital invested in hiring the workers because, the only source of new value being the exercise of labour power, this was the part of the capital which increased to provide free for the capitalist a profit, or surplus value, of in this case £20,000. Marx called this part the variable capital (v). The other part invested in the factory, machines, etc. was just as essential to production but its value was only transferred to the final product without any change in its size. Which was why Marx called it constant capital (cc). There are various relations between total capital (C) and its components:

s/C or s/(cc + v) is the rate of profit
s/v is the rate of surplus value
cc/v is the organic composition of capital

The organic composition of capital expresses in value terms the technical relationship between the productive apparatus and the number of workers needed to operate it, what academic economists would call the degree of capital intensity.

We will assume that in the second year our capitalist re-invests all of his £20,000 profit. If there has been no technical progress he would divide it as previously, using £16,000 as new constant capital and £4,000 as new variable capital. Assuming that the rate of surplus value is unchanged at 100 per cent, his profit will be £24,000 in that year and the rate of profit 24,000/120,000, still 20 per cent.

But assume that there had been technical progress and that he only needed to use £1,000 as new variable capital and so could use £19,000 as new constant capital (this is only an example; we are assuming here an unrealistically fast rate of technical progress). The organic composition of the total capital would rise but, with the rate of surplus value remaining the same, the rate of profit would fall to 21,000/120,000 or 17½ per cent.

So, insofar as technical progress raises the organic composition of capital it reduces the rate of profit. As labour power is the only source of surplus value and as the amount of surplus value depends on the amount of variable capital, if the share of v in total capital falls (and if s/v remains constant) then the rate of profit must fall. This spectre of the rate of profit falling as the stock of constant capital grew worried the classical economists Adam Smith and Ricardo and their successors like John Stuart Mill. They foresaw that, if this went on, the profit-motivated capitalist system would soon reach a state of chronic stagnation.

Marx approached the problem from a different angle. He wanted to know why the fall in the rate of profit had in practice been so slow. There must be, he deduced, some counteracting influences and, using the labour theory of value, was able in Chapter XIV of Volume III of Capital to work out what these influences must be.

Now, what does technical progress mean besides a growing capital intensity? Surely an increase in productivity as machines replace human muscle power. Applied to the machine-making industry this would mean that more machines could be produced in a given time so that the value of each of them would fall. This effect Marx called *"cheapening the elements of constant capital"*. Academic economics calls it "capital saving".

Increasing productivity in the industries making goods consumed by the workers has a similar effect on variable capital. It will in fact increase the amount of surplus value by shortening the time during which the worker reproduces the value of his own labour power, which is the only part of the working day the capitalist has to pay for (this does not necessarily mean a decline in the workers' standards of living, as explained in the article "Relative Wages"). The rate of surplus value can also be raised by increasing the intensity of work, by lengthening the working day and even by depressing wages below their value. Competition for jobs will also keep wages down and so limit how much the capitalist has to invest as variable capital.

This-the cheapening of the elements of constant capital and the rise in the rate of surplus value-was Marx's explanation as to why the rate of profit only tended to fall. He accepted the classical economists' view that the rate was falling but expected this to be a slow, long-run tendency. He did not believe that the rate of profit was always falling since at times the counter-tendencies could be the stronger.

The rate of profit can also be raised by reducing the period in which the capital (or part of it) is turned over. In our example the £ 100,000 turned over in a year; if this was reduced to six months the amount of profit would become £40,000 and the rate of profit 40 per cent per year. The development of commercial and financial institutions independent of industrial enterprises-and the introduction of shift-working and other forms of "rationalisation"-tends to shorten the turnover period and so to raise the annual rate of profit.

How the rate of profit moves even in the long run cannot be predicted from pure theory. This movement depends on which of the influences at work proves to be the stronger at any particular time or over any particular period, a fact that can only be discovered by empirical research. Some attempts have been made to estimate what has happened in the past hundred years but the results are conflicting. It has been suggested that the organic composition of capital stopped rising about 1920 due to "capital-saving" inventions.

Because Marx's theory of the tendency of the rate of profit to fall is meant to describe a slow process which would only become evident in the long run it cannot be used to explain periodic crises. The onset of a crisis is, however, often linked with a fall in the rate of profit as wages rise in a boom – but a fall caused by a short term fall in the rate of surplus value rather than by long term changes in the organic compositions of capital.

It is true that Marx does (Chapter XV) discuss crises in connection with the falling rate of profit, but with a view to explaining their significance as a counteracting tendency. For, during a depression, the value of the constant capital depreciates considerably while some of its elements (machinery, stocks) are often physically destroyed. To say that crises help offset the long-term tendency of the rate of profit to fall is quite different from saying (as John Strachey does in his The Nature of Capitalist Crisis) that crises are caused by it.

(APRIL 1971)

06 Marxian economics in the modern world

ECONOMISTS claim that they can get behind surface appearances and tell us what really determines such things as prices, wages, profits, foreign exchanges, market demand, unemployment and so on, and what will be the consequences of developments in industry, or of government measures in the field of taxation, currency, and wage and price controls. The test for any economic theory is a practical one. Was Marx right, for example, in denying the proposition that wage increases are useless because they put up prices? Or was Keynes right in claiming that if governments take certain action they can ensure continuous full employment? With this practical consideration in mind the question presents itself: have Marx's economic doctrines, elaborated a hundred years ago, any relevance today, or was Keynes right when he described Marxian economics as "not only scientifically erroneous but without interest or application for the modern world"?

Before answering the question it is useful to note how and why the study of Marxian economics has changed with the passage of time.

In Britain and other countries in the "Western" world interest in Marx's philosophical and political writings has never been so great as it is now, as is shown by the flood of reprints and of new works about Marx. Partly this is a sympathetic interest but partly also a by-product of the "Cold War". In the nineteen-sixties influential American politicians (among them Richard Nixon when Vice-President, and Allen Dulles, Director of the Central Intelligence Agency) were urging the need for schools to include the study of Marx in their curriculum so that there would be a better understanding of the then "enemy", Soviet Russia, its leaders and their policies.

But interest in Marxian economics has followed a different course from that of other Marxist studies. The twenty-year "Great Depression" of the last quarter of the nineteenth century forced governments, economists and business men to look for an explanation of the seeming universal "overproduction", an explanation they could not find in the works of older economists, and Marx came in for a great deal of attention if only to combat the growing interest in him shown by dissatisfied workers and their organisations. This continued right into the years of the next acute depression in the nineteen-thirties. Then the scene was drastically changed by Keynes' rise to fame, based on his confident demonstration that governments need no longer put up with idle factories, falling profits and mass unemployment, with all their devastating economic and political consequences.

Keynes Ousts Marx

The effect of the Keynesian upsurge on the study of and interest in Marxian economics was striking, not only in the universities but also in the political parties and trade unions. At the universities further study of Marx became irrelevant – why waste time on reading difficult works such as Capital, that “obsolete textbook” as Keynes called it? What happened was that Marx came to be regarded as an example of discarded error. As Professor Robert Freedman put it in 1961: “Most students of Marxian economics rarely read the master, but are content to let his critics speak for him”.

In Britain the Tory, Labour and Liberal Parties found common ground as disciples of Keynes, or of what they (sometimes mistakenly) believed to be Keynesian doctrine. The official Labour Party version in 1944 was in the following terms:

“If bad trade and general unemployment threatens, this means that total purchasing power is falling too low. Therefore we should at once increase expenditure, both on consumption and on development, i.e. both on consumer goods and capital goods. We should give people more money and not less, to spend.”

The trade unions were delighted to welcome the prospect that a future Labour government (or even a Tory one) would encourage them to press for higher wages. How much more pleasing this was to them than the customary action of employers (backed by the 19th-century economists) of seeking to restore profit margins in a depression by reducing wages; or than the teachings of Marx that capitalism’s periodic crises and depressions happen anyway and neither higher nor lower wages will prevent them. The trade union enthusiasts for Keynes failed to notice that what he was proposing to meet such a situation was to reduce the workers’ real wages by putting up prices instead of reducing their money wages.

One effect of the Keynesian cult was that a number of people who had called themselves Marxists recanted (John Strachey, for example, who took office in the Atlee Labour government) and the group of trade union officials and Labour MPs who had studied Marxian economics became silent. The Communist Party of Great Britain, which continued to urge the study of Marxian economics by its members, had no difficulty in simultaneously supporting the incompatible Keynesian doctrines of the Unions and the Labour Party.

But now the scene is changing again and there is the beginning of a revival of interest in Marxian economics. Two happenings have brought this about, the growing recognition of the failure of full-employment policy and the unprecedented and uncomprehended rise of prices.

Because, for other reasons, unemployment happened to be very low in Britain and many other countries in the first decade after the second world war, it was easy to represent this as a proof that Keynes was right, but in Britain the steady climb of the peaks of unemployment since 1955 back at least to pre-1914 levels, has induced reexamination of the problem. The rise of registered unemployed to over a million in 1972 with probably another half-million not registered could not be disregarded, and some who had written Marx off are now wondering whether perhaps he was right and that capitalism inevitably creates unemployment; low in boom times and rising in depressions to peak levels.

Keynes and Marx confront each other about the problem of unemployment and, in an indirect way, about the problem of inflation. When Keynes formulated his theories in the nineteen-thirties unemployment was in the region of two million, but prices had been falling for most of twenty years, so not high prices but high unemployment was the preoccupation of governments and economists.

In 1944 when the three parties in the wartime coalition government issued their joint Keynesian statement on post-war policy it held out the prospect of full employment, steady growth of production and more or less stable prices. The one they were then most apprehensive about was unemployment but now successive governments feverishly grapple with all three problems together. As prices are more than five times what they were in 1938 and rising fast, inflation is declared to be enemy No. 1 in 1973.

It finds most of the politicians and economists completely baffled, so that they offer such childish explanations as that the general price rise is caused by wage claims or by the greed of the bankers, manufacturers and retailers-as if trade unions were not doing their utmost to push up wages and employers doing their utmost to push up prices in the nineteen-twenties when prices and wages were falling fast in spite of all their wishes to the contrary.

Marx in Capital provided a comprehensive explanation of the factors which govern prices, including general rises of the price level caused by an excess issue of an inconvertible note issue. It was an application of his labour theory of value. Most economists not only reject it but see no need for any theory of value, yet ironically Keynes accepted it completely. His exposition of inflation in his Tract on Monetary Reform reads like a paraphrase of Marx, as indeed perhaps it was. Although Keynes advocated a short-term deliberate increase of prices in certain circumstances he was not a crude inflationist and if he had lived into the post-war inflation it is probable that he would have disowned what was being done in his name. Yet the responsibility was largely his because it was he who influenced economists and through them governments to take off all formal restrictions on the note issue in the belief that they are not necessary.

To complete the comparison between Marx and Keynes it must be remembered that while Keynes concluded from his studies that capitalism can be controlled and managed in such a way as to avoid booms and slumps and secure continuous full employment, Marx held no such view. Keynes said that capitalism could and should be saved, Marx held that it had outlived its role in human society and should be replaced by Socialism.

Marx made many other valuable contributions to economic theory. His explanation of the cycle of booms and depressions removes the mystery from the superficial appearance that the population sometimes seems to be too small and at other times too large; and that in one phase there appears to be “too much money” and at others “too little”, the reality being that in a boom the capitalist wants to turn his cash into means of production and in a slump wants urgently to turn his commodities into cash.

His analysis showed how the periodical big expansions of production depend on the existence of a "reserve army" of unemployed-something being demonstrated at the present time when the short-lived boom is already being threatened by shortage of workers.

One of the failings of many modern economists is their confusion about what constitutes an increase of productivity. The labour theory of value shows that the amount of labour needed to produce a commodity includes the labour at all stages, not merely the final stage of the production process. For a table or chair, for example, this includes the growing and felling of the timber, its processing and transportation as well as the final process in the furniture workshop, and an increase of overall productivity per worker cannot be measured by technical changes in the workshop alone. Appreciation of this would have obviated the common wildly-exaggerated estimates of the effects of mechanisation and automation.

Marx also showed the fallacy of the belief that booms are created by bank lending; the expansions and contractions of credit being not the causes but the symptoms of the trade cycle.

Marxian Economics In Russia

Trying to estimate the influence of Marxian economics on the administration of State capitalism in Russia and other Comecon countries in which the study of Marx is official dogma comes up against many difficulties, not the least of which is the difficulty of deciding whether the official reason given for any government policy is the real one: government double-talk is at least as common in Russia as in the rest of the world. In Russia it takes the form that publicly everything the government does has to be presented as "Marxist" and when the policy is reversed that too is "Marxist".

We can take for example the question of depreciation of the currency. As sometime students of Marxian economics Russia's rulers should know that an over issue of inconvertible paper currency causes inflation, and they used to claim that this could only happen elsewhere, not in Russia-until it did happen in Russia and was drastically dealt with in 1947 by the issue of a new currency. What we don't know is whether they blundered into their inflation in ignorance, or whether it was by design as the easiest method of financing government expenditure.

A specific charge that the Russian government has been influenced by, and led astray by, Marxian economics is made by Harry Schwartz in the Introduction to Marxian Economics edited by Robert Freedman (Pelican Books 1961). The charge is that the labour theory of value led the Russian government to suppose that "interest on capital" does not need to be taken into account as a cost. He says that the Russian planners chose hydro-electric power stations in preference to coal or oil-fired stations because the latter need fuel and the former do not and therefore the hydro-electrical stations must produce electricity more cheaply; but they disregarded the much larger amount of capital required for hydro-electric stations.

All this proves, if true, is that the Russian government, like Mr. Schwartz, did not understand the Marxist labour theory of value; for it includes in the value-forming socially-necessary labour required to produce a commodity (in this case electricity) the value transferred from the plant and machinery.

Like any other constituent of constant capital, machinery does not create any value, but yields up its own value to the product it serves to beget. In so far as it has value and therefore transfers value to the product it forms an element in the value of the product. (Capital Vol. 1, Allen & Unwin edition, p.410)

Schwartz also charges that the labour theory of value has not "*provided any very useful guidance for the setting of prices by Soviet planners*".

This is not surprising and does not support Schwartz's belief that there is something wrong with the theory. Marx was describing a capitalism in which the prices of commodities are determined under the play of market forces, not a state-capitalist form in which the kinds of commodities, their quality and their prices are centrally fixed by the planners. If this has resulted, as recently reported, in there being millions of pairs of shoes in the shops which customers do not want this has nothing to do with Marxian economics.

Marx & The Vulgar Economists

Marx made a distinction between such men as Petty, Adam Smith and Ricardo and their successors. He wrote of the former that they devoted their efforts *"to the study of the real interrelations of bourgeois production"*, while the latter were *"content to elucidate the semblance of the interrelations"* and to act in effect as apologists for the capitalists (Capital Vol. 1, Allen & Unwin edition p.55). His use of the terms "classical" and "vulgar" to describe them was one of the very few things that Keynes acknowledged having borrowed from Marx.

What of the modern economists, now numbering many hundreds? Few of them even claim to be serious students in the way that Smith, Ricardo, Marx and Keynes were. To quote what Marx wrote of their predecessors, *"they spend their time in chewing the cud of materials provided by others"*, and *"proclaiming as eternal verities, the most trivial and self-complacent notions which the agents of bourgeois production entertain with regard to their own best of all possible worlds"*.

Some who do have a better understanding of capitalist problems complain that they are talking to the deaf ears of politicians. Nothing written by Marx about the vulgar economists of his day was more harsh than criticisms of modern economists recently made by Samuel Brittan, himself an economist, and by The Economist.

Samuel Brittan, contrasting modern economists with Smith and Ricardo, had this to say: *Economists do not exist mainly to promote enlightenment, to discover how the economy works or for other such vague and worthy purposes. Like other producers, economists survive and prosper by studying the market and supplying what it appears to want.(Financial Times, 28th October 1971)*

And The Economist (2nd June 1973) in an unsigned editorial, also making comparison with Adam Smith, wrote: I*f economists today took more trouble to explain in simple language what they are trying to prove and what relevance it might* *have, the gulf between theory and practice might be closed somewhat. As it is, more and more economists fill more and more pages of learned journals with an endless stream of ill-written, verbose, half-baked mumbo jumbo which has as much value to policy makers as the chattering of starlings.*

When modern economists dismiss Marxian economics as difficult, unscientific and without application it is fitting to bear in mind who are the people who make the charge.

(SEPTEMBER 1973)

07 Was Marx wrong about class?

Classes in Modern Society by T.B. Bottomore is a revised edition of a book which first came out in 1955. It is a book which discusses Marx's theories in a scientific manner and so is worthy of serious consideration. By and large Bottomore gives an acceptable outline of Marx's views, though there are a number of points that we would challenge (as on the questions of violent insurrection, ever worsening crises, and State ownership as the negation, rather than as a form, of private ownership).

Stratification, or as Bottomore puts it, *"the division of society into classes or strata, which are ranged in a hierarchy of wealth, prestige and power,"* has been a feature of most human societies including modern society. Many theories have been put forward to explain this phenomenon and it is no exaggeration to say that discussion has centred round the theories of Scientific Socialism on the question. For Socialists were the first to put forward a theory of class. This theory is a part of historical materialism, the general Socialist theory of history and society. Stratification is explained in terms of property and technology. A thing is the private property of an individual or group if that individual or that group has a right in fact against the other members of the society to use the thing owned.

Thus a "class" is made up of people who are in the same position with regard to the ownership and use of the means of wealth-production. The other aspects of stratification-prestige and power-are determined by this property aspect. Conflict between the class which monopolises access to the means of wealth-production and the excluded class is inherent in all class societies. From this it follows that a classless society is one in which there is no private property so that all are in the same position with regard to the means of wealth-production. The socialist theory does not say that the prestige and power aspects of class have no influence on historical development. They do, but this influence cannot be explained without reference to the property aspects and in the long run cannot overcome the changes demanded by the development of technology.

The socialist theory is not the only theory of class. Other theories have prestige or power as the determinants of class. The dominant school in modern sociology explains class in terms of prestige and style of life. This too is the popular usage of such terms as: working class, middle class and upper class. In the socialist theory the working class is made up of all those who have to get a living by selling their ability to work. In the sociologists' theory the working class is to be explained without reference to the property aspect and are people who enjoy themselves in certain ways. These different uses lead to endless confusion.

Thus Bottomore, although at one point he admits that strictly speaking many of the "middle class" are members of the working class by Marx's definition, somewhat inconsistently supports the view that the socialist theory has been invalidated by the emergence of "a new middle class" made up of "office workers, supervisors, managers, technicians, scientists, and many of those who are employed in providing services of one kind or another." Socialists would not deny that workers in these jobs may have a different style of life from those who work in factories, docks and mines. They would merely deny that this is in any way a valid or relevant criticism of their theory of class.

According to the style-of-life theory of class there is no necessary conflict of interest between the various classes; modern society is not stratified horizontally into antagonistic classes but into a hierarchy of non-conflicting classes.

Other theories of class emphasize the power aspect and see classes delineated in terms of those who give the orders and those who carry them out. This theory is more familiar to Socialists as it has traditionally been that of the Anarchists. Like the socialist theory this poses a necessary conflict between the two classes that make up society. It can be said to be inadequate as it puts the cart before the horse: the power to give orders is a product of economic domination while the necessity to obey orders is a product of economic subjection. But, asks Bottomore, if this is so how can the class society of Russia be explained where the ruling class is economically privileged through its political domination? This, he claims, cannot be *"comprehended by the Marxist theory in its most rigorous form."* Here Bottomore does raise an interesting point, which illustrates one aspect of the particular development of capitalism in Russia.

It is often claimed that the socialist theory of the growth of class conflict leading to the creation of a classless society has been proved wrong. Can this be said to be so?

Socialists concede right away that on one point at least Marx was wrong: on the question of the timing. Bottomore himself uses this argument in a passage which incidentally makes it quite clear that he sees the idea of a violent insurrection against capitalist rule as central to Marx's theory:

The rise of the working class in modern societies has been a more protracted affair than Marx supposed, and it has only rarely approached the state of decisive struggle with the bourgeoisie which he expected. In the future a similar gradual development appears most likely, but the end may still be Marx's ideal society, a classless society.

It can be argued that Marx expected the overthrow of capitalist rule to be violent but in any case this was not central to his theory. Bottomore himself quotes Marx on the possibility of the workers getting power by the vote rather than by insurrection. This idea was developed by later socialist thinkers such as Engels in his 1895 Introduction to The Class Struggles in France, Kautsky in The Dictatorship of the Proletariat, Lucien Laurat in Marxism and Democracy and by the Socialist Party. If this passage were just a rejection of violent insurrection Socialists could not object to it. But it is more than this as it assumes that a classless society is already evolving out of capitalism. Which is an altogether different proposition from that which the Socialist Party accepts: that it is the necessary preconditions of a classless society (rather than a classless society itself) that are gradually evolving today.

The evolution of the working class has been and still is in the direction Marx expected. In the socialist theory the working class is to grow in numbers, in organisation and in understanding.

On the first point there can be no argument. The number of those forced to get a living by selling their ability to work has increased both absolutely and relatively and this process is still going on as professional people and peasants join the ranks of those working for a wage or salary.

Effective democracy is not just a political matter. It is a social condition expressing a certain stage in the development of the working class. For democracy–especially the vote and the free expression of ideas — is a form of organised working class pressure on the owning class. Before its advent the only means of pressure was unorganised violence, rioting and looting. The vote and the determination to keep it is a means of organising this pressure.

Democracy also allows for the further organisation of the working class. When Marx wrote, jobs like politicians, managers and administrators were all filled from the ranks of the wealthy. Now from local councillors and J.Ps to Cabinet Ministers and even Governor Generals such jobs are done by people from the working class. In politics again workers are no longer prepared to follow a wealthy man just because he is wealthy. These are significant changes showing a growth in working class competence.

To appreciate their extent we need only compare the modern working class in Britain with what it was a hundred years ago or with the illiterate mass it still is in some parts of the world.

The trade unions too are an expression of working class organisation. These have grown from isolated and weak local unions into influential and permanent national unions. This process is still going on as sections of the working class which were never organised on a large scale before now begin to do so.

It is no exaggeration to claim that today the working class run society from top to bottom. There is no job which they cannot, and do not, do. Socialists then are justified in concluding that with regard to organisation too the trend has been in the expected direction: towards a working class capable of running social affairs without the help of the wealthy.

In the field of ideas there have been changes too. Bottomore refers to the criticism of the socialist theory as it ignored nationalism-“the social bond of nationality has proved more effective in creating a community than has that of class”. This may well be true but nationalist ideas are not as strong or as crude as they once were. To rally workers behind them the owners have to do more than beat the drum and wave the flag; they have to produce arguments about humanity, justice, freedom and peace. Degrading religious ideas about the necessity of submission are also declining. On the other hand vague internationalist, egalitarian and humanist ideas are more widespread. Arguments about poverty such as were current in the past –"survival of the fittest", "over-breeding"- are just not acceptable today.

Here again Socialists are justified in seeing in this decline in crude nationalist and religious ideas and in theories openly defending inequality and poverty a step in the direction of the evolution of socialist understanding.

We are not claiming that these processes described by Bottomore as "the rise of the working class," are automatic or go on without resistance. This is by no means the case.

Their motive force is in fact the struggle of the working class which Socialists expect will develop into a conscious struggle for Socialism -and we can see in the world as it is today trends towards the development of this movement of the immense majority for a self-administering world community.

(JUNE 1966)

08 Relative wages

MARX first introduces the concept of relative wages in Wage Labour and Capital, one of his early lectures on economics dating from 1847.

In section IV Marx distinguishes three relations involving wages:
First, the actual sum of money the worker receives from his employer which he calls *"nominal wages"* and which we would now call "money wages".

Second, the actual amount of goods and services which at any time this sum of money will buy, or *"real wages"*.
(In this age of inflation workers are all too familiar with this distinction.)

Third, says Marx, *"wages are, above all, also determined by their relation to the gain, to the profit of the capitalist – comparative, relative wages". Relative wages,* he goes on, *"express the share of direct labour in the new value it has created to the share which falls to accumulated labour, to capital".*

Marx himself had not invented this idea; it was originally put forward by David Ricardo. Indeed at this time before he had fully worked out his theories Marx could properly be described as a "Ricardian socialist", as the followers of Ricardo who gave his theories an anti-capitalist aspect were called.

Relative wages (i.e., the workers' share in the product of their labour) can fall even though real wages (i.e., the amount of goods they receive) have risen, as a simple example will show.

Because value is measured by the amount of labour expended over time, the total amount of new value produced in a given time will always be the same (provided the skills of the workers remain unchanged). Thus if productivity increases and more wealth is produced in the same period, then the prices of each individual commodity will fall but the total value of all of them together will remain the same. Assume that, as a result of an increase in productivity, prices fall by 5 per cent. If wages remained unchanged, then real wages would rise by nearly 5 per cent. Relative wages, however, would be unchanged. But say money wages were to fall but not by as much as prices. The workers would still be better off in terms of the goods they received but their relative wages would have fallen.

As Marx put it:
"The share of capital relative to the share of labour has risen. The division of social wealth between capital and labour has become still more unequal. With the same capital, the capitalist commands a greater quantity of labour. The power of the capitalist over the working class has grown, the social position of the worker has deteriorated, has been depressed one step further below that of the capitalist." (Wage Labour and Capital, section IV)

Nearly twenty years later in 1865 Marx returned to this theme in another popular lecture on economics. Here he assumes that wages fall by as much as prices, which would mean that the workers would be no better off materially, and comments:
"Although the labourer's absolute standard of life would have remained the same, his relative wages, and therewith his relative social position, as compared with that of the capitalist, would have been lowered. If the working man should resist that reduction of relative wages, he would only try to get some share in the increased productive powers of his own labour, and to maintain his former relative position in the social scale." (Value, Price and Profit, Chapter XIII)

We are now in a position to say in what sense Socialists think the working class tends to become worse off as capitalism develops. They tend to become worse off in terms of the value of the amount of goods they receive compared with the value of what they produce. Saying that under capitalism the share of the working class in the wealth they produce will tend to fall is quite a different proposition to saying that the amount of goods and services they receive will fall. Most of those who accuse Marx of having believed that capitalism would reduce the working class to starvation have failed to understand this key distinction, which he took over from Ricardo, between relative wages and real wages. Relative, rather than real, wages is what tends to decline.

Capitalism is not to be justified by comparing the standard of living of most workers today with the lower standard of their grandfathers' yesterday. The valid comparison is between what people get today and what they would get if modern industry were commonly owned and geared to producing for use not profit.

(FEBRUARY 1971)

09 Capitalism did not collapse

(An abridged version of a pamphlet published in February 1932)

Fears That Capitalism Will Collapse

The purpose of the Socialist Party is to show the working class the need for a complete alteration in the organisation of society. But our work has been made more difficult by the idea that Capitalism may collapse of its own accord. It is clear that if Capitalism were going to collapse under the weight of its own problems then it would be a waste of energy to carry on socialist propaganda and to build up a real socialist party aiming at political power. If it were true, as is claimed, that Capitalism will have broken down long before it will be possible for us to win over a majority for the capture of political power, then, indeed, it would be necessary to seek Socialism by some other means. Workers who have accepted the wrong and lazy idea of collapse have neglected many activities that are absolutely essential. They have taken up the fatalistic attitude of waiting for the system to end itself. But the system is not so obliging!

At first sight there seems to be a ground for this idea. Capitalism from time to time develops acute industrial and financial crises; and at the depth of these it does appear to many observers that there is no way out, and that society cannot continue at all unless some way out is found. Men of very different social position and political convictions have been driven to this conclusion-reactionaries and revolutionaries, bankers and merchants, employers and wage-earners.

Let us go over some of the statements made by those who have foretold collapse, and notice how much alike they are. Notice, too, how each one falsifies the preceding ones. The fact of another crisis taking place is proof enough that the earlier crises did not turn out to be insoluble-the patient cannot have more than one fatal attack.

During the 19th century there were about ten well-marked crises. One commenced in England in 1825. William Huskisson, a former President of the Board of Trade, wrote about it in a letter dated 30th December, 1839:
"I consider the country to be in a most unsatisfactory state, that some great convulsion must soon take place…. I hear of the distress of the agricultural, the manufactural, the commercial, the West Indian, and all trading interests…. I am told land can neither pay rent nor taxes nor rates, that no merchant has any legitimate business…. I am also told that the whole race of London shopkeepers are nearly ruined." ('Huskisson Papers', *Constable*, 1931. p.310)

Another crisis occurred in the eighteen eighties, and was dealt with by Lord Randolph Churchill in a speech at Blackpool, in 1884:
"We are suffering from a depression of trade extending as far back as 1874, ten years of trade depression, and the most hopeful either among our capitalists or artisans can discover no signs of a revival. Your iron industry is dead, dead as mutton; your coal industries are languishing. Your silk industry is dead, assassinated by the foreigner. Your woollen industry is in articulo mortis, gasping, struggling. Your cotton industry is seriously sick. The shipbuilding industry, which held out longest of all, is come to a standstill. Turn your eyes where you will, survey any branch of British industry you like, you will find signs of mortal disease." ("Lord Randolph Churchill" by Winston Churchill,MP. *MacMillan & Co., Ltd*., London, 1906. Vol. 1, p.291)

There is one important thing to notice about the two statements quoted above. Huskisson wrote at a time when England was a protectionist country. He was an advocate of free trade. Lord Randolph Churchill spoke at a time when England had long been a free-trade country. He was an advocate of protection. It is clear that neither free trade nor protection offers a solution for trade depressions, and that the return to protection in March, 1932, will not prevent further crises.

Of late we have been asked to take a very serious view of the alleged “adverse balance of trade”, by which is meant that this country has had more imports than exports, with the consequence that debts have been incurred abroad to the extent of the excess of imports. The facts are still the subject of argument, but it is not necessary to go into that question. All that we need to remember is that the fears about the “adverse balance of trade” are not new.

In a paper read to the Royal Statistical Society on December 19th, 1876 (see “Trade, Population and Food”, by S. Bourne, pub. G. Bell and Sons), Mr. Sidney Bourne, who for many years was in the Government Service, engaged in the compilation of trade statistics, painted an alarming picture of Great Britain’s trade. He argued that serious consequences would follow if the adverse balance (which he pointed out was then in evidence) was allowed to continue. He mentioned, too, the considerable and influential body of political and public men who shared his views. After making the adjustments he considered necessary on account of income from investments owned abroad by British subjects, and the so-called “invisible exports” (i.e., the services, such as shipping and financial services, that are paid for by foreigners, but which do not take the form of actual articles passing through British ports), he declared that there was an “adverse balance” in the years after 1872. He said: “*In 1872 the true excess would seem to have been on the side of exports rather than imports, to the extent of nearly £4,000,000; but in the following year the imports again predominated, and have continued to do so with increasing weight up to the present moment.”* (p.69)

Mr. Bourne, like many modern observers of the course of trade, was apprehensive about the future:
“I firmly believe that Britain now stands tottering on the eminence to which she has attained, and that it rests entirely with her sons whether a further rise or a rapid fall is to mark her future history.” (p.75)

The Idea Of A Blind Revolt Of the Workers

The defenders of Capitalism who have been panic-stricken in times of crisis, have sought for ways to save the social system, which they believed to be in danger. On the other hand, many who desired Socialism have looked at industrial crises not with fear but with hope. They have thought that in a time of great unemployment and distress the majority of workers, although not socialists, would be forced by their suffering to revolt against the capitalists and their government, and that they would place in power a government which would try to remould society on a socialist basis.

Similar ideas are held by members of the Labour Party and Independent Labour Party, and they were handed down from the Social Democratic Federation to the parties that in 1920 became the Communist Party of Great Britain. It is indeed probable that the

Russian Bolshevist leaders, many of whom hold these views, learned them during their exile in England round about the beginning of the century.

In the October, 1931, “Labour Monthly” (just before the General Election), Mr. Dutt, the editor, wrote in a manner indicating the utmost excitement at the likelihood of a decisive crash: “The fight is here,” “the crisis marches on relentlessly,” “it is the whole basis of British Imperialism that is now beginning to crack,” “the whole system is faced with collapse,” “the hour of desperate crisis begins”; and much more to the same effect.

Mr. James Maxton, M.P., putting the I.L.P. point of view, has been as confident as the communists. He made a speech at Cowcaddens on 21st August, 1931, reported as follows in the columns of the “Daily Record”, 22nd August, 1931 (reprinted in “Forward”, 12th September):
“I am perfectly satisfied that the great capitalist system that has endured for 150 years in its modern form, is now at the stage of final collapse, and not all the devices of the statesmen, not all the three party conferences, not all the collaboration between the leaders, can prevent the system from coming down with one unholy crash.”

The Depression shows itself, every few years, in the accumulation of stocks of goods in the hands of retail stores, wholesalers and manufacturers, farmers and others. While trade is relatively good each concern tries to produce as much as possible in order to make a large profit. It is nobody’s business under Capitalism to find out how much of each article is required, so that industries quickly expand to the point at which their total output is far larger than can be sold at a profit. Quite young industries, like artificial silk, soon reach the degree of over-development shown by the older industries. Goods such as farm crops, that are ordinarily not produced to order, but with the expectation of finding a buyer eventually, naturally tend to accumulate to a greater extent than those produced only to order-such as railway engines.

As traders find it more difficult to sell, they reduce their orders to the wholesalers, who in turn stop buying from the manufacturers. Plans for extending production by constructing new buildings, plant, ships, etc., are cancelled and the workers are laid off.

Here is a situation that always arouses grave discontent. It is from this discontent that the believers in the theory of the collapse of Capitalism think that they can draw the force which will overthrow the capitalist system. But it does not work out like that. In spite of riots and agitations, Capitalism still continues. The actual events show why this is and why it must be so.

What Happens In Practice

In Great Britain two outstanding events may be considered. First, there was the great depression of 1921 and 1922, when, as now, unemployment was between 2,000,000 and 2,500,000. Then, in 1926, there was the spontaneous demonstration of sympathy with the miners in their resistance to wage reductions that resulted in what is known as the “General Strike”. Since the communists have been the most persistent advocates of the doctrine we are attacking, let us see what came of their efforts to take advantage of these two crises.

Round about 1921 and 1922 the communists claimed that they had the leadership of the hundreds of thousands of members of the unemployed organisations. They organised marches and demonstrations, deputations to Cabinet Ministers and local authorities, and attempted to seize public buildings. They did everything they could to force the authorities to grant their demands for better treatment. By winning the confidence of the workers in this way the communists then hoped to be able to lead them on to an attack on Capitalism.

numerable meetings- innumerable meetings

What was the result? A writer in their official organ tells us: *"The unemployed have done all they can and the Government know it. They have tramped through the rain in endless processions. They have gone in mass deputations to the Guardians. They have attended numerable meetings and have been told to be "solid". They have marched to London, enduring terrible hardships … All this has led nowhere. None of the marchers believe that seeing Bonar Law in the flesh will make any difference. Willing for any sacrifice, there seems no outlet, no next step. In weariness and bitter disillusionment the unemployed movement is turning in upon itself.*
There is sporadic action, local rioting, but not central direction. The Government has signified its exact appreciation of the confusion by arresting Hannington. The plain truth is the unemployed can only be organised for agitation, not for action. Effective action is the job of the working class as a whole. The Government is not afraid of starving men so long as the mass of workers look on and keep the ring." (Workers' Weekly, 10th February 1923)

In 1926 the communists had an excellent opportunity to try out their theory on the millions of workers who were involved in the strike or were sympathetic towards it. The result was just what we have said it must be. Strikes can serve a useful purpose in resisting wage reductions or securing increases, but they cannot overthrow Capitalism.

To begin with, the workers themselves have not that purpose in mind, and even when they become socialists they will still need political organisation in order to capture the real centre of power-the machinery of government and the armed forces controlled by it. This no strike can do.

In a large strike, as in a small one, starvation fights on the side of the propertied class against the wage earners. We know from the General Strike, and from revolts of workers attempted in many countries at different times, that desperate men and women will take desperate action when goaded to it by the hardships of their life under Capitalism. But we have seen in the General Strike of 1926 how such spontaneous outbursts are always crushed by the forces at the disposal of the ruling class through their control of the machinery of Government. How much easier it is, and how much less costly in human suffering, to convert a majority to Socialism than to engage in these blind revolts!

There is, too, another factor of great importance. The ruling class usually and in the long run are not blind to their own interests, and do not drive the working class as a whole into revolt. They are not so foolish as to leave only that alternative. By means of charity, doles, and unemployment insurance, and, if need be, the grant of higher wages and other concessions, the capitalists can always take the edge off the workers' bitterness and misery, and thus tide over the difficult periods of the more acute industrial depressions.

The Only Road to Socialism

The lesson to be learned is that there is no simple way out of Capitalism by leaving the system to collapse of its own accord. Until a sufficient number of workers are prepared to organise politically for the conscious purpose of ending Capitalism, that system will stagger on indefinitely from one crisis to another.

So long as the workers are prepared to resign themselves to the evils of Capitalism, and so long as they are prepared to place in control of Parliament parties that will use their power for the purpose of maintaining Capitalism, there is no escape from the effects of Capitalism. The workers will continue to suffer from the normal hardships of the capitalist system when trade is relatively good, and from the aggravated hardships which are the workers' lot during trade depressions.

That is the prospect before the workers of all the world unless they actively interest themselves in understanding socialist principles and assisting in socialist organisation.

10 Inflation: the theories and the facts

ALONG WITH EXPLAINING what inflation is and why it happens, another question presents itself today. Why is it that a problem fairly widely understood half a century ago now completely baffles the majority of politicians and economists? Some of them admit that as far as they are concerned it is inexplicable and incurable; others offer explanations which a look at past inflations would show to be quite untenable. And now we have psychologists telling us it is not just an economic problem but is to be explained as indicative of a deep-rooted dissatisfaction with life.

A few facts show the irrelevance of most of the theories of inflation now current. Past inflations have always been halted when governments decided to halt them, and British capitalism operated continuously for a century before 1914 without any inflation at all. Are we to seriously believe that it was a century of "satisfaction with life" on the part of the workers? And what of the ten years 1921- 31 when prices were not rising but falling, and the workers showed their "satisfaction" by the General Strike?

Understanding inflation may not be particularly easy, but most of the difficulty is the confusion introduced into it by economists. An economics handbook published in 1969 defined inflation in terms of its cause, depreciation of the currency: "high prices caused by an over-issue of inconvertible paper money". That is how Marx and many other economists correctly explained inflation, but nowadays most economists attempt to explain it in terms of its symptoms not its cause.

They talk about two kinds of inflation, "cost-push or wage-push" and "demand-pull", the one pushing prices up and the other pulling them up. That is about as useful a concept as Dr.Doolittle's famous circus animal the Pushmi-Pullyu which had a head at both ends. (It would appear that the economists' monster has both heads at the same end but, like Dr.Doolittle's, they mostly take control alternately and not both at the same time.)

If a general price rise had not been caused by currency depreciation its "cost" and "demand" symptoms would also not be there; which is not to say that individual and general price rises cannot happen for causes other than inflation. In the period 1820-1914 in this country, when there was no currency depreciation and therefore no inflation, there were alternate comparatively small falls and rises of the price level in depressions and booms. But it never once rose above the level of 1820 whereas, with inflation, the present price level is about six times what it was in 1938.

General price rises due to currency depreciation were known in previous centuries, but it was a mark of 19th century British capitalism that, by deliberate government policy, prices were kept comparatively stable by the avoidance of inflation. It did not stop the growth of production and wages.

Marx dealt with one aspect of price changes in his lecture published in the pamphlet Value, Price and Profit, where he examined the erroneous proposition that wage increases cause a general price rise; but he did not there deal with currency depreciation or inflation. On the contrary, as he pointed out, he was dealing with the situation as it existed in Britain when there was no inflation. He was therefore assuming for his purpose no change whatever "i*n the value of the money wherein the values of products are estimated*".

His examination of inflation is in Capital, Volume 1, in the chapter "Money, or the Circulation of Commodities" where he put forward the proposition, based on his labour theory of value, that the excess issue of an inconvertible paper currency puts up prices.

J.M.Keynes in his Tract on Monetary Reform (1923, pages 42-3) gives a similar explanation. Marx pointed out that beyond a certain point an excess issue of notes will result in money "falling into general disrepute". Keynes, in the work referred to, dealt with the way this condition of general disrepute developed in Germany in the great inflation of the nineteen-twenties. Professor Edwin Cannan, without using the labour theory of value, reached much the same conclusion from observation of what actually happens (Modern Currency and the Regulation of its Value, 1931).

It should be noted that Cannan, like Marx, dealt with "currency" (notes and coin). Some modern "monetarists" have introduced more confusion by trying to base their theories on "money" defined to include bank deposits as well as notes and coin.

What must be emphasised is that inflation is caused by those who control the note issue, which in this country is the Government through the Bank of England. It is often used in wartime because it is a speedy way of increasing government revenue to meet additional war expenditure. In Germany in the nineteen-twenties, in peace-time, it was a deliberate device (backed by big business) to pay off debts in depreciated currency: inflation, at least in the short term, serves the interest of debtors against lenders.

Marx And Inflation

Marx's treatment started with the economic law that the use of a particular commodity to serve as the money commodity, e.g. gold or silver, rests on the fact that that commodity like all other commodities is an embodiment of value, the amount of "socially necessary labour" required to produce it. If for example one ounce of gold and one bicycle each require ten hours' labour they are equal values, and gold can serve as the "universal equivalent" for the exchange of all other commodities.

The conversion of value into price takes place through the minting of coins of uniform weight and purity. In Britain each £ or sovereign was, by law, fixed at a uniform weight of gold (about a quarter of an ounce). So the bicycle's price would be about £4 because its value was equal to that of one ounce of gold. If the British government had fixed the £ at one-eighth of an ounce of gold instead of one-quarter, the bicycle's price would have been £8 not £4 and all prices would similarly have been doubled. If they had fixed it at half an ounce, all prices would have been halved. On both suppositions, while the price of the bicycle (or other commodity) would have been doubled or halved, its relation to an ounce of gold would have remained unaltered.

The next stage in Marxian monetary theory was based on the proposition, confirmed by long experience, that with a given total volume of production and buying-and-selling transactions, and with gold minted into the £ or sovereign at about a quarter-ounce, a certain total amount of currency would be needed. (The fact that the required total varies from time to time with the velocity of circulation need not be gone into.) What Marx put forward was that the total value of needed currency represented a total mass of value, and therefore a total weight. of gold, and that if the total of gold is replaced by inconvertible paper money and the paper money is then issued in excess, prices will go up.

"If the paper money is in excess, if there is more of it than represents the amount of gold coins of like denomination which could actually be current, it will (apart from the danger of falling into general disrepute) represent only that quantity of gold, which, in accordance with the laws of circulation of commodities, is really required and is alone capable of being represented by paper. If the quantity of paper money issued is, for instance, double what it ought to be, then in actual fact one pound has become the money name of about one-eighth of an ounce of gold instead of about one-quarter of an ounce. The effect is the same as if an alteration had taken place in the function of gold as a standard of prices. The values previously expressed by the price £1 will now be expressed by the price £2." (Capital Vol. I, page 108 in Allen & Unwin edn.)

Long experience has shown that Marx was right. Whatever inconvertible paper money has been issued in excess for a considerable period it has raised prices above what they would otherwise be.

In Britain the amount of notes in circulation in 1938 was £554 millions. It is now about £5,330 millions. Since 1938 the needed amount has been affected by certain changes, including greater total production (now more than double the 1938 level), and increased population, which would operate to raise the needed amount of currency. Working in the opposite direction has been the wider use of cheques, etc. and corresponding reduced need for notes and coin.

In the 19th century the issue of notes in excess amount was effectively prevented by law. Beyond a small fixed amount the Bank of England could only expand the note issue by placing an equivalent amount of gold in its reserve, and the paper was tied to gold by the requirement of "convertibility" – that is to say, the Bank of England was compelled by law to give gold in return for notes at the legally fixed rate of about one quarter ounce for each £l. Except for marginal variations the value represented by Bank of England notes could not be different from the value of gold. Bank of England notes "were as good as gold" and were everywhere accepted as such. Now there is no convertibility, and in effect no restriction on the note issue.

A Two-Way Fallacy

The man largely responsible for the adoption of inflation as government policy (they now call it "reflation") was the economist J.M. Keynes. Yet he did not knowingly and intentionally advocate inflation as a long-term policy. (There were some people who did just that.) What Keynes did was to say that if certain other things were looked after it was no longer necessary formally to restrict the note issue:

"Thus the tendency of today – rightly I think – is to watch and to control the creation of credit and to let the creation of currency follow suit, rather than, as formerly, to watch and control the creation of currency and to let the creation of credit follow suit."

Professor Cannan promptly warned that the doctrine was basically unsound and would open the door to inflation. See Economic Journal, March 1924, and Cannan's An Economist's Protest, 1927, pages 370-384. Keynes's views won the day and came to be accepted by the Tory Party and Labour Party and by the trade unions, not only as monetary theory but because Keynes put them forward as part of his popular "full employment" doctrine.

This doctrine was formally set out by the Tory, Labour and Liberal wartime government in 1944 in the White paper Employment Policy. It was cautiously phrased but was immediately followed by a more crude interpretation drawn up by the Labour Party in Full Employment and Finance Policy. Here it was laid down that if unemployment threatened "*we should at once increase expenditure, both on consumption and on development – i.e. both on consumer goods and capital goods. We should give people more money and not less to spend. If need be we should borrow to cover government expenditure. We need not aim at balancing the budget year by year."*

It is the Labour Party version that has been followed by Tory and Labour governments, particularly in the past decade. It has included hoping for a much lower level of unemployment than even Keynes thought possible – and part of the belief has been the idea that increased spending increases production – something which events show to be true, if at all, only for a short period.

The fallacy of the theory is well illustrated from the period 1965-72. In that period annual consumer spending jumped from £22,943m. in 1965 to £39,263m. in 1972, an increase of 70 per cent. In the same period registered unemployment jumped from 360,000 to 943,000 and production went up by only 17.5 per cent. The principal result was that prices rose by 47 per cent.

The policy is still being operated. One of the few forecasts about the present Labour government that has proved correct was that made by the late Richard Crossman, former minister in a Labour government, that the rate of inflation would be increased (Times, 12th Sept., 1973).

There are two ways in which currency depreciation can be operated, the direct way used by the German government in the 'twenties and the more indirect way used in Britain. Professor F.W. Paish summarised them:
"In some countries it [the Government] might simply print more notes and use them to pay for its expenditure. Nowadays, in such a country as Great Britain, the government would borrow from the banks, printing more notes to enable the banks to maintain their cash reserves."(Benham's Economics, 1967, p. 465)

The additional notes and coin get into circulation through the joint-stock banks (Lloyds, NatWest, etc.) which bank with the Bank of England.

These banks withdraw notes and coin from the Bank of England and in turn the additional notes and coin reach the individuals, shopkeepers and employers who make withdrawals in that form from their deposits with the banks. The note issues are set out in the Bank of England's Weekly Return. In the week ended 24th July 1974 there was an increase in the notes in circulation by £52,193,306 to a total of £5,098,767,831.

Many economists and politicians would be happy to see inflation going on indefinitely in the belief that it keeps unemployment down. But whatever happens with moderate inflation, even they cannot ignore that when inflation gets to the point that money falls into "general disrepute", unemployment multiplies. In Germany in 1923, unemployment was 4.2 per cent with another 12.6 per cent partially unemployed. Within the year it had jumped to 28.2 per cent and 42 per cent respectively, representing together over 5 million workers in receipt of unemployment pay and an unknown larger number not receiving relief. At this point the German government called a halt by replacing the notes by a new gold-backed currency.

Realisation of this danger here has induced some politicians and economists to call for the limitation of the note issue. In 1968 the Editor of The Times (15th October) described the idea that price rises could be checked "by printing fewer notes" as a "crude error". Now the Editor, Mr. Rees-Mogg, has been converted and is urging a return to the gold standard (Times, 1st May 1974).

But at the same time they are fearful that the drastic action of entirely stopping the increase of the note issue would, as in 1920, bring prices down but be accompanied by a big increase in unemployment. So the line taken by one group of economists is to call for a gradual reduction in the rate at which inflation is increasing. Professor A.A. Walters of the London School of Economics is urging that such a slackening should be spread over three years (Money and Inflation, Aims of Industry 1974, and Times, 23rd July 1974).

It only remains to point to the difference between Marx and other economists.

Marx was simply describing how capitalism operates, with inflation and without it. He was not saying, as did Cannan, that it is better to run capitalism without inflation, or saying like Keynes that a “full employment” policy will improve and save capitalism.

In Marx’s view capitalism inevitably produces unemployment and crises. For him the task of the workers is to abolish capitalism and replace it with Socialism, in which problems of prices, inflation, crises and unemployment will not exist.

(September 1974)

11 Capitalism and work

UNDER Socialism the entire means and techniques that humanity has developed for producing wealth will become the common property of the whole community. The whole of Humanity’s heritage as a tool-making innovator handed down from flint stone axe to electronic cybernetics will be unreservedly taken over by the whole community for the satisfaction of its material needs. This condition by itself pre-supposes democratic control and social equality within all aspects of world-wide production. Socialism will reconcile the harvesting of what the community needs with the assertion of individuality through work. Thus people will not perform work by selling their labour on the labour market for a wage or salary. Work will be the means by which people will express themselves within the community. Socialism means co-operation, with the individual determining their contribution to society through all their diverse skills and aptitudes.

No proposition is more likely to inflame the prejudices of defenders of the wage labour system than the demand for “… a community of free individuals, carrying on their work with the means of production in common.” These prejudices take the form of a variety of objections frequently voiced at Socialist public meetings. Part of this prejudice is that people by their nature are lazy and have a natural repugnance for work. That production is only ever possible at all when people are forced to engage in work activity by bringing pressures to bear on them. The defenders of commercial interests and the indignities of
wage labour claim that people will only work under the inducement of money incentives and when laziness is penalised by the worker being cut off from a livelihood.

It is often argued that people’s “natural laziness” rules out as impracticable any revolutionary demand for a society free from commercialism, the profit motive, class-divided society, and the social coercions of wage labour. This objection is a hollow prejudice that seeks to impose a quite false and perverted limitation on humanity’s social possibilities. In order to explain the prejudice itself and why, within Capitalist society, work itself is brought into disrepute, it is necessary to place the whole question of work within modern society into its true social perspective.

The framework within which work is performed in Capitalist society is comprised of the fact that wealth is produced and distributed through the buying and selling of commodities. A small section of the population monopolise and control the means of production, the factories, mines, transport etc., and this monopoly of the means of life is used by them to extract a commercial profit from social production.

From this economic basis two inescapable facts of every day life emerge. Firstly, the work performed by any category of worker, whether they be labourer, technician or professional, enhances the privileged position of a social minority; the profit that accrues to this minority class takes precedence over general community needs. Secondly, the only access to a living open to any category of worker who contributes through his or her work to production and distribution is by selling his or her mental capacities for wages or salary to an employer.

Capitalist production rests upon involving those who contribute to production in subservience and economic exploitation. Exploitation is an inevitable corollary of work in a commercial society. Work in these circumstances cannot be the fulfilment of the workers' interests through their creative efforts, but its direct opposite, the activity by which their exploited status is maintained. The ends to which their work efforts are directed are alien to their interests as individuals and alien to the interests of the working class as a class. Work under Capitalism means selling labour power in a labour market, but in the conditions of day to day reality it is impossible to abstract the power to work from the personality of the person working. Commercialised labour involves the commercialisation of humanity itself.

Under Socialism the fact that work will be the means whereby individuals will assert themselves within society through creative activity will in itself characterise the nature of social production. The expression of individual talent will not be stultified by the crushing economic factors which operate in present day society, where the object of production is for sale at a profit. The organisation of the labour force under Capitalism is determined by stringent economic factors which are both commercial and military; it is geared to the profit motive and the military defence of the profit motive. From the viewpoint of catering for actual material needs a vast wastage of labour takes place under Capitalism. The functions of Advertising, Insurance, Banking, the Armed Forces, the Armaments Industry are all examples. This is not an organisation of Society's resources adjusted to human needs but is one adjusted to social ends that are alien to human needs and which would under Socialism become redundant.

Under Capitalism then, work becomes an activity imposed on workers by forces external to themselves. It is the division of labour in the cause of profit that imposes itself on workers and forces them to comply with its requirements. People become the adjuncts of machines, servants of the "belt system"; workers engage in work that is physically and mentally destructive and which involves a life time of personal frustration.

Workers under Capitalism must compromise their individuality, must tell lies and perfect a multitude of deceitful techniques. Like someone who sells. eternally cheerful under all circumstances, they must lead double lives, only becoming their true selves during their leisure time. Work in these circumstances cannot be a creative activity that enhances the workers' personal sense of fulfilment; it is the hall mark of their social inferiority and merely the means of reproducing their subsistence from week to week or month to month. Work is not an end in itself but a distasteful and repugnant means to another economic end.

The division of labour in Capitalist society not only places in the name of work, a burden of economic duty on the working class, but debases work even further through the economic factors that condition it. A system geared to the marketing of commodities is pre-occupied with cheapness and saleability. The skills of carpenters for instance are bent not to the flowering of their talents, but to speed, the saving of time, skimping of material and the inferiority of the product in design and finish. The person who, in their leisure time, does carpentry for a hobby, in an atmosphere that is free from the requirements of speed and cheapness, would not dream of making an inferior joint, whilst knowing that the more elaborate joint, consuming more time, was really necessary. That person would regard such an economy as not only an abuse of the job in hand but an abuse of themselves, a self-inflicted insult to their own skill. The double standard is common in many workers. As units of labour within commodity production they must act as economic categories and accept all the priorities of Capitalist economics, including speed and cheapness. It is only when they are outside money inducements and the economic necessity of reproducing their subsistence that they are able to take pride in performing uncorrupted work.

Capitalism degrades work and makes impossible what William Morris called "*The expression of man's joy through his labour*". Marx himself saw work in a Capitalist context in the same light. *"… The work is external to the worker, that is not part of his nature, that consequently he does not fulfil himself in his work but denies himself… His work is not voluntary but imposed, forced labour. It is not the satisfaction of a need but only a means for satisfying other needs… Finally, the alienated character of work appears in the fact that it is not his work but work for someone else, that in work he does not belong to himself but to another person."* (Economic and Philosophic Manuscripts.)

To ignore the social context in which work is performed and to raise people's "natural laziness" as an objection to Socialism is to crown ignorance and prejudice with distorted pessimism. Like any other social phenomenon, the question of work can only be understood in relation to the whole social environment.

Under Socialism work will spring spontaneously from individuals themselves and the contribution that they make through Society, in whatever field they choose, will at once form the basis of social cohesion and at the same time endow their individual personality. The interests of the individual will be in harmony with the interests of the whole community.

(APRIL 1965)

12 Commodity struggle or class struggle?

THERE is an old view still floating about that only those workers who are class conscious and organised politically for the overthrow of capitalism take part in the class struggle, and that the average worker, who is not class-conscious, takes no part in the struggle, being simply a commodity seller.

Ideas don't fall down from the sky but are drawn from the material at hand, consequently the idea of the class struggle must have been drawn from the struggle itself. In other words the class struggle must have existed before we could become conscious of it. Therefore the class unconscious must have waged the class struggle in the first place, so why cannot the class unconscious still take part in it?

Those who contend that the class struggle only exists where there are class-conscious workers, and then only between the class-conscious and the ruling class, are driven to support the absurd position that the class struggle is imposed on society, that instead of ideas being the product of material conditions, material conditions are the product of ideas-the utopian view.

In spite of contentions to the contrary, no individual with a mighty brain came on the scene possessed with the brilliant idea of imposing the class struggle on society and ordering the combatants to line up and get on with it. The combatants were there; the struggle existed; but whereas formerly it was fought blindly, now some of the combatants, having a clear knowledge of the position, fight with understanding, and therefore to far better purpose.

While there is a similarity between the worker coming upon the market to sell his commodity and the average capitalist coming upon the market to sell his wares, yet there are essential differences-the differences that breed the class struggle. There are opposing interests between buyers and sellers of commodities – sectional interests – but there is a class cleavage between buyers and sellers of the workers' commodity and class interest enters the matter. It is a class commodity that the worker sells, not an ordinary commodity, and it is in his capacity as a member of the master class, as opposed to the working class, that the capitalist buys it. The workers combine among themselves to sell their commodity (labour power) as high as possible-the masters combine among themselves to buy it as low as possible. The worker cannot make a profit out of the sale of his labour-power, he can only live more or less well. The capitalist, on the other hand, buys labour-power to make a profit out of its consumption.

It is out of the consumption of labour-power that all surplus wealth is derived. The interests of the workers as sellers of labour-power and the interests of the capitalists as buyers thereof are diametrically opposed, and so are the ideas with which each class sets out. The main objective of the capitalist is buying to sell-investing capital. The main objective of the worker is selling to buy-selling his energy to obtain the wherewithal to live.

The commodity the worker sells is the basis of value, and consequently the amount of surplus value the buyers of it obtain is determined by the difference between the value of the labour-power and the value produced by the using up of that labour-power.

The value of the labour-power, however, is determined by its cost of production, which depends upon, among other things, the standard of living social development and physical surroundings have handed down. Around the question of the standard of living a constant struggle goes on. This struggle is peculiar only to the labour-power commodity and this peculiarity bears fruit in the form of the class struggle.

Workers and masters meet upon the market as equals only in the sense that they are both either sellers or buyers of commodities-but here the equality ends. The worker is bound to sell his commodity or starve; he can’t go into a refrigerator, and it is this fact that binds the worker to a status of slavery-it is this fact that illustrates the sham nature of the “equality” of buyers and sellers so far as the labour-power commodity is concerned.

As soon as a child of the working class enters employment he takes a part, however insignificant it may be, in the class struggle. This struggle, in its early stages, is not a struggle for the overthrow of the system; nevertheless, it is a class struggle-the struggle of a class for existence. Ultimately this struggle develops into the struggle for the overthrow of the class that suppresses. In other words, the industrial struggle, the struggle to resist the encroachments of capital (the early form of the class struggle) develops of necessity into the political struggle, the struggle for the overthrow of capitalism. It is out of actual class struggle experience that knowledge of it, and of the method with which to wage it, is obtained.

To sum the matter up:
The labour-power commodity is like all other commodities in that it is bought and sold upon the market, its value being determined by the cost of production, around which the higgling of the market allows its price to fluctuate.

It is unlike all other commodities in that it is the commodity of a subject class sold to a dominant class, and further in that the standard of living, an historical element, enters into the question of its cost of production. It is these two fundamental distinctions that make the matter a class conflict as apart from the ordinary matter of the competitive buying and selling of commodities.

The modern class struggle presents two aspects. On the one side the struggle to sell labour-power under the best conditions-the industrial struggle for wages and hours of labour; on the other side the struggle for the overthrow of the wages system-the political struggle for Socialism. The un-class conscious worker takes part in the former but only the class conscious worker takes part in the latter.

The class struggle is, therefore, both industrial and political-the latter being its ultimate, its revolutionary, form.

(NOVEMBER 1920)

13 Increasing misery

THE theory of The Socialist Party of Great Britain is Marxist in the sense that certain of our key ideas about society, economics and politics are derived from Karl Marx.

Although our case rests entirely on its own merits and not on what Marx may or may not have said, we have always been ready to defend Marx's views where we believe them to be correct against criticisms based on an ignorance of what he wrote.

It is common, for instance, to read that "Marx has been proved wrong on fundamentals; the workers far from being denied a fair share of profits and so becoming poorer, are vastly better off". Is this true? Was it fundamental to Marx's economic theory that under capitalism the workers would come to own less and less material possessions?

The short answer is, No. Marx did not believe that the amount of goods and services the workers consumed would necessarily have to decline. What he did say was that the misery of the workers would increase, but he did not equate this misery with destitution. For him, as we shall see, misery referred to the general circumstances under which workers, however well-paid, had to live and work.

Poverty can be used in two senses: absolutely, to refer to a low standard of living in terms of a given small amount of goods and services, or relatively, to refer to a low standard of living compared with that of others. There can be no doubt as to where Marx stood on this issue. In one of his earliest economic writings Wage Labour and Capital (first given as a series of lectures in 1847, and revised and republished by Engels in 1891) Marx wrote:
"A house may be large or small; as long as the surrounding houses are equally small it satisfies all demands for a dwelling. But let a palace arise beside the little house, and it shrinks from a little house to a hut. The little house shows now that its owner has only very slight or no demands to make; and however high it may shoot up in the course of civilization, if the neighbouring palace grows an equal or even greater extent, the occupant of the relatively small house will feel more and more uncomfortable, dissatisfied and cramped within its four walls. A noticeable increase in wages presupposes a rapid growth of productive capital. The rapid growth of productive capital brings about an equally rapid growth of wealth, luxury, social wants, social enjoyments. Thus, although the enjoyments of the worker have risen, the social satisfaction that they give has fallen in comparison with the increased enjoyments of the capitalist, which are inaccessible to the worker, in comparison with the state of development of society in general. Our desires and pleasures spring from society; we measure them, therefore, by society and not by the objects which serve for their satisfaction. Because they are of a social nature, they are of a relative nature." (Marx-Engels Selected Works, Vol. 1, pp.93-94, Moscow, 1958)

Marx understood subsistence, too, in a relative sense.

According to his theory, wages fluctuate about the subsistence level of the worker.

Certain critics (and even supporters) have taken this to mean that there was a fixed amount of goods and services above which real wages could never rise. This so-called Iron Law of Wages was repudiated by Marx. He regarded the subsistence level as something which varied not only amongst workers of different skills but also from place to place, in the same place at different times and even, to a small extent, under the influence of the workers' own trade union activities.

To suggest that Marx expected wages to fall towards, and even below, some absolute poverty line is to misunderstand him completely.

Marx also writes in Wage Labour and Capital that, even though the most favourable situation for the working class under capitalism is the fastest possible growth of capital, "however much it may improve the material existence of the worker, does not remove the antagonism between his interests and … the interests of the capitalists" (p.98). Marx returned to this theme in Chapter XXV of Capital which considers "*the 'influence of the growth of capital on the lot of the labouring class*".

Marx's comments on the occasions when the wages of some workers have risen as a result of a temporary labour shortage again make it quite clear that high wages do not end the economic exploitation of the working class.

"The more or less favourable circumstances in which the wage-working class supports and multiplies itself, in no way alters the fundamental character of capitalist production."
(p.613).

"A rise in the price of labour, as a consequence of accumulation of capital, only means, in fact, that the length and weight of the golden chain the wage-worker has already forged for himself, allow of a relaxation of the tension of it." (p.618, Moscow, 1961).
Later in the same chapter just before the passage about the "*accumulation of misery*", Marx explicitly states that high wages do not affect the misery of workers either:

"In proportion as capital accumulates, the lot of the labourer, be his payment high or low, must grow worse." (p.645)

Clearly by misery Marx cannot have meant absolute poverty. For, as this passage shows, workers may be better off materially but still worse off in some other sense. This referred to the conditions under which they had to work. Marx mentions the boring drudgery workers had to perform under capitalism in place of the pleasure they could get in a Socialist society from creating useful things. He also mentions the fact that workers are employed by capitalists and deprived by them of the fruits of their labour.

As he put it in 1875 in a criticism of the Iron Law of Wages:
"The wage-worker has permission to work for his own subsistence, that is, to live, only insofar as he works for a certain time gratis for the capitalist (and hence also for the latter's co-consumers of surplus value); that the whole capitalist system of production turns on the increase of this gratis labour by extending the working day or by developing the productivity, that is, increasing the intensity of labour power, etc.;

that, consequently, the system of wage labour is a system of slavery, and indeed of a slavery which becomes more severe in proportion as the social productive forces of labour develop, whether the worker receives better or worse payment." ("Critique of the Gotha Programme", Selected Works, Vol. II, p.29)

(JANUARY 1971)