Workers' Liberty
Reason in revolt

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MARX'S CAPITAL

1867-2017: 150 years of decoding capitalism

"The Bible of the working class"

Karl Marx's book *Capital* was published 150 years ago, on 14 September 1867, the fruits of over 15 years' study.

Marx was then fairly well-known in the European and US workers' movements, through his activity in the First International, founded in September 1864. His Communist Manifesto of 1848, which had become a rarity since revolutionary socialist activity receded in the early 1850s, had been republished and translated, and was circulating well.

Capital appeared first in a German edition. There was no "Marxist" group in Germany at the time — in fact, the word "Marxist" was as yet known in no language — but the General German Workers' Association founded by Ferdinand Lassalle in 1863 had members who respected Marx. Wilhelm Liebknecht, an old comrade of Marx and Engels from the revolutionary upheavals of 1848, had returned to Germany from English exile in 1862. With August Bebel, he would found the Social Democratic Workers' Party in 1869.

For the first few months, Marx and Engels exchanged exasperated comments about how slow responses to *Capital* were, and how poorly Liebknecht was publicising it. Bit by bit the pace quickened.

The first translation, in Russian, was published in 1868. A French translation, which Marx supervised and amended closely, appeared in 1872. The English translation did not appear until 1887, so early English Marxists like William Morris had to study the French edition. A second German edition, with a sizeable Afterword from Marx, came out in 1873; a third one, soon after Marx's death in 1883; a fourth one, supervised by Engels, in 1890.

A Marxist study group in India today

UNLIKE

With the growth and spread of working-class socialist parties in all the developed capitalist countries after the foundation of the Second International in 1889, the book was translated and read more and more widely.

As early as 1886, Engels called it "the Bible of the working class". From the West Coast of the USA to the eastern parts of the Tsarist empire, workers (many of whom had been granted by the state only primary-school education) and students gathered in groups to study and discuss the book, chapter by chapter, sentence by sentence.

Unlike the Christian Bible, *Capital* was based on critical thinking and on painstaking empirical research. It was packed with such economic statistics as Marx could lay his hands on, and probably more "empirical" than any other general book on economics. Its superiority over other texts in political economy lay not only in that but in its method and approach, and in the fact that it studied capitalist society not as an "economic model" but as an integral whole (economy, society, ideology) and in historical perspective.

In the academic and literary world, indeed, *Capital* has won Marx a place as a reference figure, to be respected if not applauded, in historical studies, sociology, politics, and philosophy.

Oddly, in economic studies it has fared less well. Almost exactly at the time *Capital* was published, orthodox economics was taking a new turn, developing new mathematical techniques for analysing price movements on the basis of supply and demand, and sidelining the study of the connections between market exchanges and allocations of labour which Marx had continued from Adam Smith and Ricardo.

Engels wrote scornfully in 1888: "The fashionable theory just now here is that of Stanley Jevons, according to which value is determined by utility... and on the other hand by the limit of supply (i.e. the cost of production), which is merely a confused and circuitous way of saying that value is determined by supply and demand".

In fact developments from the theory of Jevons (and Menger, Böhm-Bawerk, Walras, Pareto, and others) gained sway even in some socialist circles before the end of the 19th century. Walras himself was a sort of socialist. They continue to dominate orthodox economics today, despite many critiques from within the orthodoxy which undermine their bases. The idea, inescapable from Marx's perspective, that wage-labour is exploitative and alienating even if wages are relatively high, has been too hot to handle.

KEYNES

Some elements of Marx's economic thinking were, however, taken into the mainstream by John Maynard Keynes in 1936.

"The great puzzle of effective demand", wrote Keynes, had "vanished from economic literature" after the early 19th century and "could only live on furtively, below the surface, in the underworld of Karl Marx". Keynes seems never to have studied Marx much, and in his half-sneering acknowledgement classified Marx with cranks and mavericks, but in fact a whole strand of "Keynesian" economics is a redevelopment of ideas developed by Marx but ignored by orthodox economics for decades.

Ever since Marx, most Marxist writers have been preoccupied by political, historical, and philosophical questions, and given relatively little time to the economics. From the late 1920s through to the 1970s or 80s, there was a contingent of "Marxist economists" in and around the Communist Parties churning out "Marxist economics". But this economics-written-to-order tended to discredit Marxism, for example by its tortuous attempts to claim right into the 1960s that working-class living standards in Europe were declining in absolute terms.

Since around 1968, there has been a visible current of thinking within, or on the edges of, academic economic theory which refers to Marx and is free from Stalinist diktat. Many of its writers have been able to sustain dialogue and draw useful material from other heterodox economists, such as left-wing Keynesians, or others who refer to the cryptic work of Piero Sraffa, a comrade of Antonio Gramsci's who in exile from fascist Italy became a professor at Cambridge University and an influence on both Keynes and the philosopher Ludwig Wittgenstein.

It has been said, and rightly, that too big a proportion of the work of this newer "Marxist economics" is concerned with "more-Marxist-than-thou" interpretation and exegesis of Marx's writings. But not all the interpretation and exegesis is dross. And serious work has been done on developing the approach and concepts of Marx to deal with new problems.

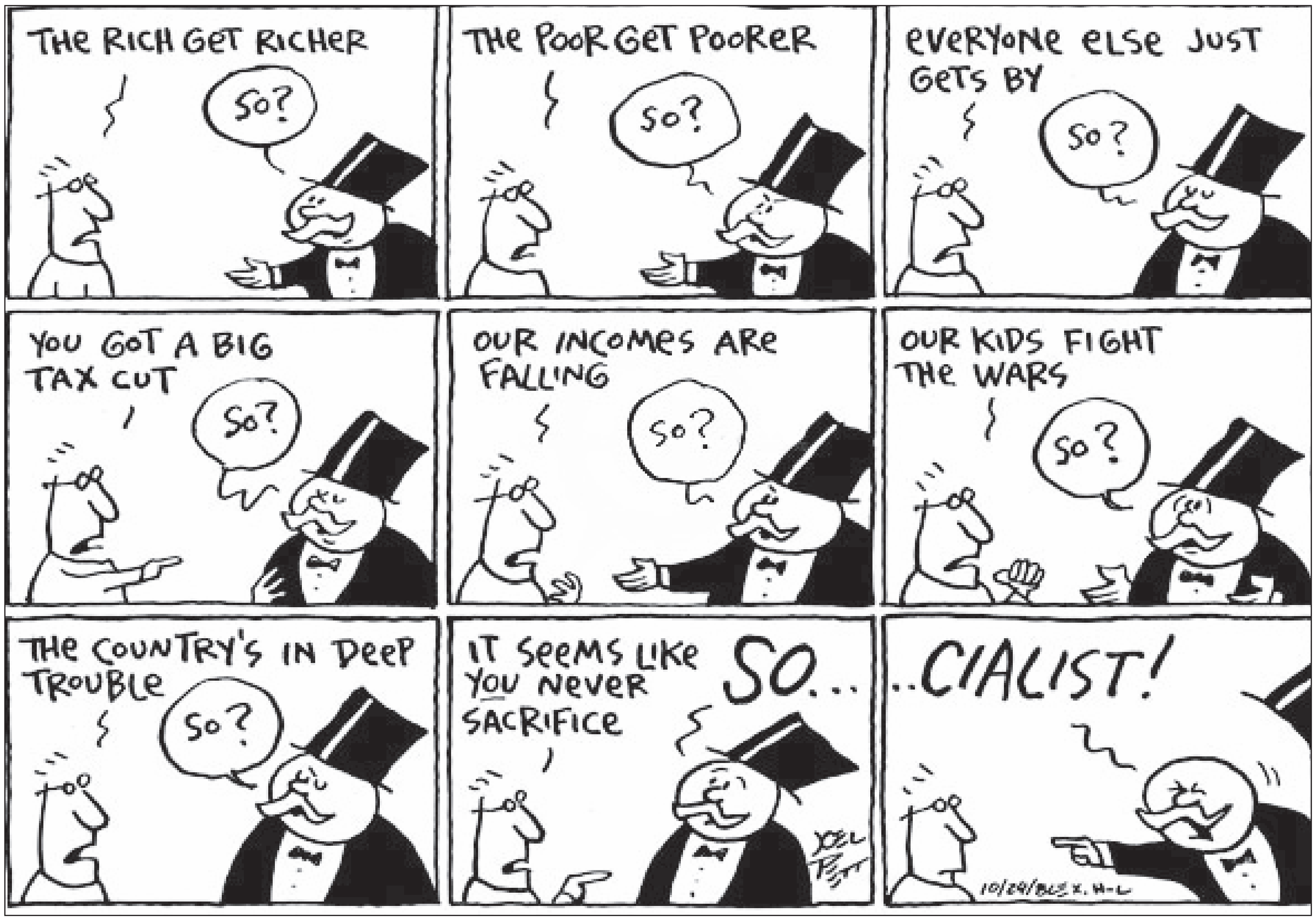
As new green shoots of left politics sprout on the terrain long barren because so poisoned by the decades of Stalinism, we need to rediscover the urgent drive to study. We need to learn which was so big a part of the workers' movement in the early days of the influence of Capital.

We need to make links which will enable the best of "academic Marxism" to fructify active labour-movement politics, and political activism to stimulate the best academic writers.

• This introduction, and the other texts in this pull-out, were written by Martin Thomas

Where do profits come from?

How do capitalists make profits? An individual capitalist can profit by cheating, or by what orthodox economists call "technological rents" (the ability to charge a higher price for a distinctive product, or to command royalties). But that is no explanation for the whole capitalist class.



The simplest form of capitalist profit is the financial capitalist lending money at interest. But that cannot be the basic form. Capitalists cannot live by lending at interest to each other any more than an economy can be built on people taking in each other's laundry.

The question is, how does the value of the outputs from capitalist production get to be systematically bigger than the value of the inputs? So we must get some ideas of how the value of outputs is determined.

One common explanation is that price equals cost of production, that is, that the value of output equals the value of the inputs, and the input of "capital" attracts a cost equalling profits.

As Marx remarked in *Capital* volume 3: "We do not learn at all in this way what price in general is". "A certain amount of money is paid [for commodities]… But what is money?" The account assumes as natural, rather than analysing, the particular social relations which find expression in the fact that most goods and services appear in society with numbers attached to them according to which they exchange.

Moreover, if part of value is to be numerically assessed as the contribution of capital, bearing a definite ratio to the amount of capital involved, then we need to know how to assess amounts of capital. But how much a particular mass of capital costs depends, in turn, on the rate of wages.

In 1960, Piero Sraffa showed that it is impossible to measure an amount of capital (that is, to add up all the stuff reckoned by the bourgeois economist to be "capital") without first knowing what the wage and profit rates are. In other words, the rate of profit cannot be a mandatory percentage return generated (for whatever reason) by a given-in-advance quantity of capital.

UNACCOUNTABLE

Thus in such an account: "nothing remains but to declare… profit… to be in some unaccountable manner a definite extra charge added to the price of commodities…" (Marx, *Capital* volume 3). And how much should be added? 20%? 10%? 5%?

Or maybe the idea that prices are determined by supply and demand will enlighten us? If the price of an item were very low, there would be a lot of demand (assuming that the item has some use, at least, to some people), but no supply, because no-one could make a profit by producing it. As the price goes up, the demand will go down, but, above some minimum price, the item will be supplied. The price must be set by the point where demand equals supply.

But if that were the gist of it, then in a "perfect" capitalist market, with no monopolies or suchlike, profits must be zero. If profits are 8%, then some capitalist can still make a dollar by selling at 4% profit, and can drive prices down. If the general rate is 4%, then some capitalist can out-compete and drive the price down by selling at 2% profit... and so on down towards zero profit. As a well-known orthodox economics textbook puts it (inconspicuously):

"In the long run under perfect competition prices will settle towards levels at which there is nothing left over for payment to the entrepreneur in excess of his managerial wage and interest on his capital".

In that case, of course, the "entrepreneur" will not bother, so capitalism is impossible.

Supply-and-demand analysis can be useful for explaining short-term variations in price, or price movements in special situation. It is no use for explaining the general phenomenon of profit. It becomes useful only if we can find some other theory to explain profit.

Orthodox theory generally attributes profit to "the reward of abstinence", or in more modern terminology, to "time-preference". The capitalist with cash could have spent it on big dinners and expensive treats, but instead invested it for a period, and so deserves a reward. Put it another way: profit is the price which has to be paid to persuade the capitalist to wait (and wages are similarly theorised as the price which has to be paid to persuade the worker to emerge from idleness). Profit is "a measure of what we lose by receiving our money later rather than now", as a textbook puts it.

If this account explains anything at all, it explains only interest. A productive capitalist who borrows the money from a bank will have to pay the full price of "waiting" or "abstinence" or "time preference" to the bank, and have no profit left over. So why bother with production?

If taken seriously, it would imply that profits would be high in countries where people are impatient (so require big incentives to abstain or wait), and low in countries where they are patient. Yet in fact a capitalist investing millions in production has no desire to spend her or his whole fortune in one spree.

The whole argument reads more like a plea about why capitalists should "deserve" profits than a scientific investigation of how they get them. As Marx summarised it:

"Our capitalist... exclaims: 'Oh! but I advanced my money for the express purpose of making more money'. The way to Hell is paved with good intentions, and he might just as easily have intended to make money, without producing at all...

"He tries persuasion. 'Consider my abstinence; I might have played ducks and drakes with the 15 shillings; but instead of that I consumed it productively, and made yarn with it'. Very well, and by way of reward he is now in possession of good yarn instead of a bad conscience..."

The method of orthodox economics here is typical. It constructs a view of human nature by deduction from capitalist economics — here, a notion of human nature as essentially impatient, by deduction from the facts of investment and profit — and then turns round to demonstrate that capitalist economics is the result of human nature.

The orthodox theory of profit can be improved by arguing that profit "rewards" not just "abstinence", or waiting, but also risk and managerial labour. But the improvement does not get far. It still gives no explanation of the profit left to the capitalists after they have paid the insurance company, the manager, the banker, etc. It still gives no real explanation of economic facts, but only an attempted sentimental apology for them. See what risk the capitalist runs! How hard he must work! How patient he must be! How does that explain why the capitalists pocket so much more than the workers who risk losing their jobs in every shift of the markets, who are whipped into "continuous improvement", and who must often "abstain" as they wait for the end of the month or week for their wages?

CIRCLE

We need to explain the economic fact of profit from other economic facts, not from sentimental pleas, circular arguments, or flat assertions. We cannot possibly find an answer if we limit ourselves to deducing value of outputs from value of inputs. We need a theory which relates value to production, and escapes the vicious circle of deducing values from values.

We can explain money only after we have explained exchange in more general forms. Exchange symbolises a social process equating bibles, brandy, broccoli, babygros, etc., and identifying them as simply greater or smaller exchange-values. The use values are all of different kinds, but the exchange values are all of the same kind. They must represent some so-

cial property of the commodities, present in all of them in greater or lesser amount but always of the same kind.

But the process of producing commodities, if we look at it not from "above", from the angle of the market, but from "below", from the angle of production, is the process of allocating and re-allocating the social pool of labour to different lines of production. Or, at least, it is that so long as society has developed to the point where "labour" is a social substance which can (maybe with frictions and delays) be constantly re-allocated between different lines. Marx wrote in his *Contribution to the Critique of Political Economy*, a sort of first installment of *Capital* published in 1859: "Universal social labour is... not a ready-made prerequisite but an emerging result". ("Universal social labour" was his term then for what in *Capital* he would call "abstract labour").

Now the difference between the value of outputs and the value of inputs is the difference between the amount of labour deployed and the value paid out to acquire that labour.

At first sight it looks as if there should be no difference: we have the same "value of labour" both on the output side and on the input side. Look more closely! The workers do not own "labour". They are seeking employment because they lack the means to "labour" productively on their own. "In order to be sold as a commodity on the market", wrote Marx, "labour must at all events exist before it is sold. But could the labourer give it [i.e. labour] an independent objective existence, he would sell a commodity [i.e. the product of that labour] and not labour". Workers sell "labour-power", their capacity to labour. Labour as such is deployed only as the capitalists "consume" the commodity labour-power which they have bought from the workers.

Everything appears, and in a sense is, the realm of "Freedom, Equality, Property, and Bentham", until we look into the process of the capitalists "consuming" labour power. Then we "perceive a change in the physiognomy of our dramatis personae. He who before was the money-owner, now strides in front as capitalist; the possessor of labour-power follows as his labourer. The one with an air of importance, smirking, intent on business; the other, timid and holding back, like one who is bringing his own hide to market and has nothing to expect but — a hiding". From that hiding, from the extraction of quantities of labour far in excess of the equivalent paid for labour-power, emerge profits. The capitalists have paid the workers the equivalent of, say, three hours' labour, but make them toil for nine hours.

Labour-power can become a commodity, more or less freely and fluidly bought and sold, only when "labour" has become a social substance which can (maybe with frictions and delays) be constantly re-allocated between different lines. At that stage labour develops a twofold character. In one aspect it is "abstract labour", the consumption of a quantum of the social pool of labour-power. In another aspect it is "concrete labour", not commensurable at all. No quantum of software-coding will produce a loaf of bread, no quantum of baking will produce a computer program.

The two aspects of labour are inseparable. No-one goes to work telling their friends: "oh, this week I'm just doing abstract labour". But they are also different real social relations. Abstract labour is the eating-up or alienation by the capitalists of the workers' energy, creative capacities, and time. Concrete labour is the production of ever-more-multifarious wealth. In the later chapters of *Capital*, Marx documents the divergence of these aspects: workers become more and more cogs in a mechanism alien to them, capitalists and their hangers-on appropriate a richer and richer variety of wealth.

Marx's analysis of exploitation does not rest primarily on the "labour theory of value" as such. That the underlying relations between prices were an expression of relative deployments of labour-time was not an idea new to him. It was held by the bourgeois political economists Adam Smith and David Ricardo, and indeed by some of their successors such as John Maynard Keynes, none of whom had a theory of capitalist exploitation.

The contemporary Marxist economist Diane Elson has remarked shrewdly that with Marx the theory became more a "value theory of labour" than a "labour theory of value".

Another of Marx's innovations compared to Smith and Ricardo was more analysis of how prices could diverge seriously and even systematically from being proportional to values. Price, Marx argued, is in bourgeois society the only phenomenal expression of value relations, but also an inaccurate one: "the possibility of quantitative incongruity between price and magnitude of value, or the deviation of the former from the latter, is inherent in the price-form itself".

Marx's great innovations were the distinction between labour-power and labour, and the distinction between abstract labour and concrete labour.

Grundrisse and wage-slavery

How can wage-labour reasonably be described as wage-slavery? If a worker makes a free contract, as an individual equal before the law, with an employer, isn't that a fair day's wage for a fair day's work?

Shouldn't the word "exploitation" be reserved for exceptional cases where workers are exceptionally at a disadvantage in the wage-bargain, rather being the word being used (as Marxists use it) for all wage-labour?

The *Grundrisse*, Marx's "rough draft" of 1857-8, offers a faster-burning and more vivid first draft of the answers to these questions which Marx develops in *Capital*.

In *Capital*, Marx is laconic and deliberately "flat" about labour and labour-power.

In order to be able to extract value from the consumption of a commodity, our friend, Moneybags, must be so lucky as to find, within the sphere of circulation, in the market, a commodity, whose use-value possesses the peculiar property of being a source of value, whose actual consumption, therefore, is itself an embodiment of labour, and, consequently, a creation of value. The possessor of money does find on the market such a special commodity in capacity for labour or labour-power. [Chapter 6].

It just so happens that way, and that's that.

In *Capital*, when Marx introduces the concept of surplus value (the common underpinning, in his theory, of capitalist revenue of all sorts), he starts by imagining that wages are equal to the amount of value added by a worker in a day. Impossible: there would be nothing for capital to feed on! A seemingly pedantic distinction resolves the conundrum. The value of labour-power (which underpins wages) is determined by the labour-time embodied in working-class subsistence, not by the labour done by the worker after the capitalist has bought the labour-power.

GOOD LUCK

The owner of the money has paid the value of a day's labour-power; his, therefore, is the use of it for a day; a day's labour belongs to him. The circumstance, that on the one hand the daily sustenance of labour-power costs only half a day's labour, while on the other hand the very same labour-power can work during a whole day, that consequently the value which its use during one day creates, is double what he pays for that use, this circumstance is, without doubt, a piece of good luck for the buyer, but by no means an injury to the seller. [Chapter 7]

"By no means an injury to the seller!" Only over hundreds of pages, in *Capital*, does Marx build up the picture which shows that the market criterion, "by no means an injury to the seller", is only a half, or quarter, or one-tenth truth. In *Capital*, Marx does not use the words "exploit" or "exploitation" until chapter 11. Even there, those words are mostly used in a fairly neutral way.

In *Capital* Marx chose a deliberately toned-down, give-your-opponents-their-strongest-argument approach. Compare the *Grundrisse*.

The exchange between capital and labour... splits into two processes which are not only formally but also qualitatively different, and even contradictory:

(1) The worker sells his commodity... for a specific sum of money... (2) The capitalist obtains labour itself.. the productive force... which thereby becomes... a force belonging to capital itself...

Instead of aiming their amazement in this direction — and con-

sidering the worker to owe a debt to capital for the fact that he is alive at all, and can repeat certain life processes every day as soon as he has eaten and slept enough — these whitewashing sycophants of bourgeois economics should rather have fixed their attention on the fact that, after constantly repeated labour, he always has only his living, direct labour itself to exchange...

The worker cannot become rich in this exchange, since, in exchange for his labour capacity as a fixed, available magnitude, he surrenders its creative power, like Esau his birthright for a mess of pottage. Rather, he necessarily impoverishes himself... because the creative power of his labour establishes itself as the power of capital, as an alien power confronting him. He divests himself of labour as the force productive of wealth; capital appropriates it, as such...

The productivity of his labour, his labour in general, in so far as it is not a capacity but a motion, real labour, comes to confront the worker as an alien power; capital, inversely, realizes itself through the appropriation of alien labour.

POORER

The worker emerges not only not richer, but emerges rather poorer from the process than he entered.

For not only has he produced the conditions of necessary labour as conditions belonging to capital; but also the value-creating possibility, the realisation which lies as a possibility within him, now likewise exists as surplus value, surplus product, in a word as capital, as master over living labour capacity, as value endowed with its own might and will, confronting him in his abstract, objectless, purely subjective poverty. He has produced not only the alien wealth and his own poverty, but also the relation of this wealth as independent, self-sufficient wealth, relative to himself as the poverty which this wealth consumes, and from which wealth thereby draws new vital spirits into itself, and realizes itself anew.

After production, [labour capacity] has become poorer by the life forces expended, but otherwise begins the drudgery anew...

In the earlier parts of the *Grundrisse*, Marx follows other economists in calling what the capitalists buy from the workers "labour". In the very course of writing the *Grundrisse*, he realised that was wrong. The worker sells not labour but labour-power, or the capacity to labour.

The best-known explanation of this distinction between labour and labour-power is Engels' introduction to a later edition of *Wage Labour and Capital*. Engels' introduction is deliberately "flat", in the same way that Marx's exposition in the early chapter of *Capital* is. In the *Grundrisse*, we see the distinction dawning on Marx; and it is not merely a distinction, it is a conflict.

Living labour itself appears as alien vis-a-vis living labour capacity, whose labour it is, whose own life's expression it is, for it has been surrendered to capital... Labour capacity relates to its labour as an alien... Just as the worker relates to the product of his labour as an alien thing, so does he relate to... his own labour as an expression of his life, which, although it belongs to him, is alien to him and coerced from him... Capital is the existence of social labour.

The distinction between labour-power and labour is not just a logical distinction, but a social process of separation, a question of social power. Marx was to explain further in *Theories Of Surplus Value*:

Instead of labour, Ricardo should have discussed labour-power. But had he done so, capital would also have been revealed as the material conditions of labour, confronting the labourer as power that had acquired an independent existence, and capital would at once have been revealed as a definite social relationship.

The explanations in the *Grundrisse* are all the more powerful because here — in contrast to some of his earlier writings, and more sharply than in any other of his later writings — Marx stresses that "the workers themselves... will not permit [wages] to be reduced to the absolute minimum; on the contrary, they achieve a certain quantitative participation in the general growth of wealth".

That they do so is politically important: it is what makes wage-workers within capitalism able to get "a share of civilisation which distinguishes [them] from the slave" — such as "participation in the higher, even cultural satisfactions, the agitation for his own interests, newspaper subscriptions, attending lectures, educating his children, developing his taste etc".

The formal equality which the wage-worker achieves in capitalist society is important, too: it "essentially modifies his relation by comparison to that of workers in other social modes of production".

The evil is one not to be remedied by higher wages, or more complete formal equality.

Thus Marx's comment, some years later, on a clause in the German socialists' Gotha Programme which said that the problem with wage-labour was an "iron law" keeping wages too low:

It is as if, among slaves who have at last got behind the secret of slavery and broken out in rebellion, a slave still in thrall to obsolete notions were to inscribe on the program of the rebellion: Slavery must be abolished because the feeding of slaves in the system of slavery cannot exceed a certain low maximum!

Of course slaves generally did not get enough food. Of course slave revolts were good even if limited to demanding bigger food rations. Of course it is inherent in the system of capitalist wage-labour that wages are squeezed down. Of course it is important that workers struggle to get even a little bit more. But Marx developed his theory so as to encourage workers to rebel against wage-labour as a whole, not just against low wages, just as, in their time, slaves had eventually rebelled against slavery as such, and not just against small food rations.

The same thought is expressed in the *Grundrisse*:

The recognition of the products as [labour-power's] own, and the judgement that its separation from the conditions of its realisation is improper — forcibly imposed — is an enormous advance in awareness, itself the product of the mode of production resting on capital, as much the knell to its doom as, with the slave's awareness that he cannot be the property of another, with his consciousness of himself as a person... slavery... ceases to be able to prevail as the basis of production.

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A dialogue with the future

Native Americans and Native Australians were flummoxed when they saw European settlers buying and selling land. When the Russian revolutionary Victor Serge came to the West in 1936, he found it hard to explain to his 16 year old son, born and brought up in the Soviet Union, how big factories could be privately owned.

"This big building then... does it belong to one man, who can do just what he likes with it? Does this shop, with enough shoes for the whole of Orenburg, belong to just one owner?"

"Yes, son: his name is written there in lights. The gentleman probably owns a factory, a country house, several cars..."

"All for him? ... But what does he live for, this man? What is his aim in life?"

"His aim", I replied, "is, broadly speaking, to make himself and his children rich..."

"But he's already rich! Why does he want to get any richer? In the first place it's unjust...".

Imagine, however, how it would be if someone from the socialist future arrived in Britain today. I'll call her Avrio, from the Greek word for tomorrow. The food, the clothes and the furniture in the shops she all understands, even if some things look old-fashioned, but one thing is incomprehensible. "What do they mean, these numbers stuck on things in the shops? What does it mean, bananas 17p each, broccoli £1.25 per kg, cheese £5 per kg?"

Today's person, Seemera, replies: "they are prices."

A: "What are prices?"

S: "The amount of money you have to pay for things."

A: "What do you mean, money?"

Seemera shows Avrio a five-pound note. "That's money. For example, you could buy 1 kg of cheese, or four kg of broccoli, or 30 bananas with that."

A: "With that funny bit of paper? But it hasn't even got anything interesting to read on it. I can understand giving someone food because they're hungry, but what would you want this paper for?"

S: "All right, forget about money for now. The prices represent the exchange-values of these different things — the proportions in which they exchange. One kg of cheese is equivalent in exchange to 4 kg of broccoli or 30 bananas."

A: "But I don't like broccoli at all. And anyway, what's the point of all this exchanging? If I had 30 bananas, I'd keep a few for myself and put the rest into the common store."

S: "These prices aren't a matter of what you want or I want. They're an objective measure of what these different things cost."

A: "What do you mean cost?"

S: "Well, the cost of cheese is the price of the milk it is made from, plus a part of the price of the machinery it is made with, plus..."

A: "So the price is the cost, and the cost is a lot of prices! Very clear, thank you very much! What a complicated system!"

A long silence follows, and then Avrio has a thought. "I know! We work out how much of different sorts of food and clothing and things will be wanted, and how much labour will be needed for them, and some things cost more labour than others. We don't put labels with numbers on them, but we could, I suppose. Do you mean that these prices express the social cost of these things in terms of the amount of labour they take to produce?"

S: "I suppose so..."

A: "It must be! You must have some way of deciding how much labour is allocated to different things. If these numbers are about the cost of the goods, they must be about that."

S: "Yes, I suppose so. I suppose the only way all these different things can represent just more or less of some single social quantity is more or less of social labour time..."

A: "But you don't seem sure. Maybe I'm not sure, either. Why do these labels say 40 pence or £4 rather than, say, two minutes or twenty minutes?"

S: "In our society nobody really does plan how much labour is spent on different things. It is all regulated by exchange on the market."

A: "Well, our planners often make silly mistakes, and we find we've worked at producing something that no-one really wants. Maybe your system is better. How does it work?"

S: "You exchange things in the market. One person has thousands of bananas, another has heaps of broccoli, a third has lorry-loads of clothes. These are all exchanged in the market, and everyone goes away with the selection they want, a bit of this, a bit of that. If too much cheese has been produced, it can be exchanged only below the usual rate, so the cheese factories will cut back and less labour will be used on making cheese. If too little has been produced, then it can be exchanged above the usual rate, and the cheese factories will take on more labour to produce more. In this way, the amount of labour used in each line is adjusted all the time to fit with demand."

A: "I can imagine a few things going wrong with that."

S: "They do. But it works after a fashion."

REPRESENTED

A: "So the labour-cost of your products is represented only by the rate at which they exchange with other products?"

S: "That's right. The exchange-value represents the labour-cost, but with all sorts of ups and downs due to supply and demand and other factors."

A: "What if cheese is produced by two different methods, one taking more labour-time than another?"

S: "The exchange-value reflects social labour-time, the part of the total labour-time of society, used in production, so you have to measure according to average labour-time on average technology."

A: "You say all this is regulated by supply and demand, without anyone planning. So people are pushed out of jobs, and pulled into jobs, without having any control over it?"

S: "Yes. Mind you, you don't mind so much losing one job if you can find another with similar conditions. You don't really care what you produce. What matters to you is getting a wage."

A: "That's weird. Isn't the whole point of work to produce something definite?"

S: "Yes and no. You have to produce something that someone will buy. But exchange-value represents abstract labour, that is, labour you can measure as just so many hours, or as just the using-up of so much average labour-power".

A: "You don't have much of a life. It's the products of your labour that have a life, showing off their prices, exchanging to and fro, throwing you in and out of jobs with their exchange relations. You let yourselves be ruled by those funny bits of paper you call money".

S: "Yes. Shakespeare put it like this:

Thus much of this will make black white, foul fair
Wrong right, base noble, old young, coward valiant...
Why this
Will lug your priests and servants from your sides
Pluck stout men's pillows from beneath their heads:
This yellow slave
Will knit and break religions, bless the accursed;
Make the hoar leprosy adored, place thieves
And give them title, knee and approbation
With senators on the bench..."

Wages, Price, and Profit

At the same time as he was readying *Capital* volume 1 for publication, Marx gave an exposition of his view on workers' struggles over wages in a report (in effect a lecture) delivered at two successive meetings of the General Council of the First International, on 20 and 27 June 1865.

The exposition was not published at the time. It was found and published only in 1898, after Engels' death, by Karl Marx's daughter Eleanor, under the title *Wages, Price, and Profit* (or in some editions *Value, Price, and Profit*).

Some of the exposition is a summary of the arguments in *Capital* volume 1 (and useful to study as such, after reading the first few chapters of *Capital* volume 1). But, for whatever reasons, the basic argument in the exposition:

- that a class struggle over wage levels is built in to capitalism;
- that the outcome of that struggle is not set in advance, but varies according to the balance of forces;
- that, therefore, there is no "iron law of wages"; the setting of wages is a very elastic process;
- that, over and above the immediate benefits from wage battles, the organisation of the working class in militant trade unions to improve wages is a central and indispensable stepping stone towards working-class self-assertion

– that basic argument is nowhere sharply spelled out in *Capital*, where, almost throughout, Marx assumes for the sake of argument that the value of labour-power (the "living wage") is a given magnitude, and wages correspond to the value of labour-power.

Looking over the whole body of Marx's writings, there can be no doubt of his strong view that workers would, should, and could fight for higher wages, and that the trade-union organisation built up in such battles was central to socialist strategy.

IRON LAW

However, at times when only a limited range of Marx's writings were available, it was common for socialists to hold to the idea of the "iron law of wages" (wages cannot rise above physical subsistence level) or to argue that almost nothing could be gained by trade-union battles for higher wages.

Less excusably, many orthodox critics of Marx assert that Marx has been "refuted" by capitalist development because Marx claimed that capitalism would push workers down to starvation level, and in fact it has not.

Thus the importance of reading "Wages, Price, and Profit" alongside *Capital*.

In chapters 1 to 7 of *Capital* Marx develops the concepts for understanding the basic relations of capitalist society: commodity, use-value, value, price (or exchange-value), abstract and concrete labour, money, capital, labour-power, surplus-value.

The concept of labour is here a starting point, but also a concept reshaped and redefined through the later development of the analysis. Chapters 10 to 15 analyse how the development of capitalist production shapes and reshapes the labour-process.

This happens through class struggle, and from chapter 10 onwards class struggle is integral to the analysis.

In chapter 10 Marx shows that a class struggle over the length of the working day is built in to capitalist relations. No natural or mechanical economic law defines it in advance.

Chapters 13, 14, and 15 are in part about the class struggle for control in the workplace.

Throughout, however, Marx assumes that wages are paid at a rate corresponding to the value of labour-power (a "living wage"). *Capital* contains a later section about wages (chapters 19 to 22). Those chapters contain some important points, but they are mostly about the forms of payment of wages, and how they tend to conceal the facts of exploitation, rather than about class struggles over wages.

In *Wages, Price, and Profit*, Marx is replying to an old "Owenite" socialist, John Weston, who argues that battles for higher wages are pointless.

First Marx asks: how can there possibly be a fixed limit for wages? The total of output is highly flexible. It increases with every rise in productivity. No iron law says how much of that output will go to the workers, and how much to the capitalists and their hangers-on.

In fact, wages are higher in some countries than in others. (Marx estimates about twice as high in the USA as in Britain. Elsewhere he states that wages are much higher in Britain than in France or Germany). Can there be a different "iron law" for every country?

Second, Marx summarises the argument developed by David Ricardo earlier in the 19th century to show that wage rises, all other things being equal, will not lead to price rises.

On the contrary. Capitalists would wish for higher prices, both before and after a wage rise, but a wage rise gives them no extra ability to raise prices without losing sales.

All other things being equal, wage rises will lead to a fall in profits and greater share of consumer goods being consumed by workers, or some goods previously being consumed only by capitalists and their hangers-on now being consumed by workers. They will lead to no general price rise, but to a fall in the price of commodities which involve much equipment and materials in their production; a rise in the price of commodities which involve a greater proportion of living labour in their production.

Marx himself gives the example of agricultural wages increasing in England in the 1850s, but food prices not rising.

Bear in mind that Marx is writing at a time when British money was linked to the gold standard (£1 = 0.235420 troy ounces of gold). Once the effect of the new gold discoveries of the 1850s (Australia and California) was absorbed, and while the technology of gold production was fairly stable (i.e. an ounce of gold represented a fairly stable quantum of labour-time), prices were on the whole more likely to fall than to rise.

In 1865, the relative worth of £1 from 1860 was 19s 8d using the retail price index. In 1890, the retail-price equivalent of that same £1 was 17s 1d.

Between 1860 and 1890, average earnings increased while retail prices decreased (on average), yielding a 72% increase in "real" earnings.

These things work a bit differently in the post-1971 era of "fiat money", money which represents a quota of future labour-time by virtue of being given legal status by the state and people having confidence that less-than-uncontrollable future amounts of currency notes will be issued. In this era states regularly and explicitly plan the expansion of the money supply so as to generate price inflation (at a moderate or more-or-less stable level: for example, the Bank of England aims to generate 2% inflation per year, and the European Central Bank the same).

In periods of militant wage battles, like the 1970s, states can adjust by gearing monetary policy to higher inflation and thus allowing bosses scope for bigger price rises. "Wage-price spirals" can develop, but they depend on state policy as well as the wage rises.

Under either a gold-linked currency or a fiat currency, all other things being equal price rises will tend to generate wage rises, as workers insist on their wage being enough to buy the socially-established necessities. But the converse does not hold.

Third, Marx summarises his theory of value, price, and surplus-value. Price is determined by value, which is the average socially-necessary labour-time embodied in commodities. Wages are determined by the value of labour-power, which the labour-time embodied in "wage goods", or the commodities comprising a "living wage". Those two quantities – price of output, and wages paid to the workers producing the output – are distinct, and can vary in different ways. The difference between them is surplus-value, expressed in rent, interest, and profit.

If wages are determined by the value of labour-power, then class struggle over wage levels is built in to the system for several reasons.

• Fundamentally: there is no mechanical balance in capitalist society constantly equating price to value. In fact, values are not known, day to day. Wages are adjusted to "living wage" levels only by struggle.

• The cost of "wage goods" may rise, just in money terms, or in money terms reflecting an increased labour-time necessary to produce them. Struggle by workers for higher (money) wages is then necessary just to restore the long-term relation.

• The intensity of labour may be increased, thus increasing the "using-up" of labour-power by the capitalists; or capitalists may try to lengthen working hours. Wage battles may erupt as, so to speak, "displaced" forms of struggle over work intensity or working hours. Workers will and must fight for higher wages, both to deter the capitalists from imposing longer hours, and to gain the means to restore themselves.

• In the business cycle, wages tend to get pushed down below long-term value in depressions. If only to restore the long-term relation, workers must fight to limit that pushing-down, and to push up wages above long-term value in boom times.

Also, and in some ways more fundamentally, what about the general capitalist tendency to increase the productivity of labour?

"By virtue of the increased productivity of labour… only four hours of the working day, instead of six, [might] be wanted to reproduce an equivalent for the value of the daily necessaries… [Thus the worker might receive the same "real wage", and yet her or his relative position compared to the capitalist would be worse]. If the working man should resist that reduction of relative wages [relative to capitalist income], he would only try to get some share in the increased productive powers of his own labour".

And there is built-in scope for that sort of attempt, because the "value of labour-power", as Marx points out, has a "moral and historical element". What wage-goods comprise a "living wage" is something relative and fluid, not fixed for all time.

There is inbuilt space for workers to expand that relative and fluid definition.

In *Wages, Price, and Profit*, Marx seems to conclude with a pessimistic estimate. "The general tendency of capitalist production is to sink the average standard of wages", because

wage advances will be met by mechanisation which increases the capitalists' control and enables them to keep a more-or-less permanent pool of unemployed.

However, I think Marx is here talking of a lower level of wages in terms of equivalent hours of labour-time, which in those days of gold-based currency was roughly equivalent to a lower level of wages in terms of cash. Prices would be more likely to fall than to rise, so a sinking "average standard of wages" might well mean an increasing volume of wage-goods, or "real wage".

And the "general tendency" is only a "general tendency". Capitalist production also has a "general tendency" to extend the working day. That calls forth, as we see in chapter 10 of *Capital*, a counter-tendency of workers' struggle, which eventually establishes (though never perfectly) a more or less normal working-day.

The "general tendency" to sink wages also calls forth a counter-tendency of workers' struggle to raise wages. The increased productivity generated by capitalist development means that capital can in fact simultaneously concede increased "real wages" and increase the rate of exploitation.

On the statistical evidence, exactly that has happened over the long term. For example, Fred Moseley has estimated that the rate of exploitation in the USA is now about 300%. In his numerical examples in *Capital*, Marx takes 100% as the rate of exploitation, and it seems that he did that on the basis of such data as he could get from Engels. The rate of exploitation has risen considerably; but evidently workers can buy much more stuff with their wages in 2017 than they did in 1865 (or even than they did in 1965).

In other writings, Marx points out that capital itself, in a back-handed way, constantly tends to stir up new needs and wants in the working class, and thus (despite itself) to increase the amount of stuff embodied in the "living wage". In chapter 22 of *Capital*, Marx observes that in general wages are higher (will buy more stuff) in more-capitalistically-developed countries (his example: Britain) than in less (his example: Germany), but the wage-cost ("unit labour cost") of commodities in the more-developed countries tends to be lower because higher productivity outweighs the higher wages.

"Each capitalist does demand that his workers should save, but only his own, because they stand towards him as workers; but by no means the remaining world of workers, for these stand towards him as consumers. In spite of all 'pious' speeches he therefore searches for means to spur them on to consumption, to give his wares new charms, to inspire them with new needs by constant chatter etc. It is precisely this side of the relation of capital and labour which is an essential civilising moment, and on which the historic justification, but also the contemporary power of capital rests". (Marx, *Grundrisse*)

"Production of surplus value based on the increase and development of the productive forces requires the production of new consumption; requires that the consuming circle within circulation expands as did the productive circle previously. Firstly quantitative expansion of existing consumption; secondly: creation of new needs by propagating existing ones in a wide circle; thirdly: production of new needs and discovery and creation of new use values". (Marx, *Grundrisse*)

"Capital… impels… a greater diversity of production, an extension of the sphere of social needs and the means for their satisfaction, and therefore also impels the development of human productive capacity and thereby the activation of human dispositions in fresh directions. But just as surplus labour time is a condition for free time, this extension of the sphere of needs and the means for their satisfaction is conditioned by the worker's being chained to the necessary requirements of his life". (Marx, 1861-3 manuscripts)

"The workers themselves, although they cannot prevent reductions in (real) wages, will not permit them to be reduced to the absolute minimum; on the contrary, they achieve a certain quantitative participation in the general growth of wealth". (Marx, *Theories of Surplus Value* part III ch.21. I think "real" wages here means wages as measured in labour-time.)

A few years after Marx's death, Karl Kautsky summarised this dialectic well:

"The elevation of the working class which the class struggle brings about is less an economic than a moral one. The economic conditions of the proletarians… improve slightly and slowly… But the self-respect of the proletarians increases and also the respect that other classes of society give them… they are beginning to expect more from themselves… becoming more sensitive towards every slight and every oppression… All the improvements, which some hope and others fear will make the workers contented, must always be less than the demands of the latter, which are the natural result of their moral elevation".

"One immense factory"

Capital **is deliberately sparing in its indications of the future socialist society. There is one passage which is sometimes read as an indication of the future socialist society, but which is not that at all.**

"The same bourgeois mind which praises division of labour in the workshop, life-long annexation of the labourer to a partial operation, and his complete subjection to capital, as being an organisation of labour that increases its productiveness – that same bourgeois mind denounces with equal vigour every conscious attempt to socially control and regulate the process of production, as an inroad upon such sacred things as the rights of property, freedom and unrestricted play for the bent of the individual capitalist. It is very characteristic that the enthusiastic apologists of the factory system have nothing more damning to urge against a general organisation of the labour of society, than that it would turn all society into one immense factory".

Stalinists and Fabian socialists have adapted this to present socialism as indeed "turning all society into one immense factory", supposedly preferable to capitalism because it is more planned and more efficient.

BLOSSOM

That was far from Marx's mind. Characteristically, in writing *Capital* he gave more energy to indicting capitalist efficiency — what he called "economy in each individual business", in other words, the capitalist shaping of the labour process — than to indicting the anarchy of competition, which, to be sure, he also indicted. He wrote in *Capital* volume 3:

"The realm of freedom actually begins only where labour which is determined by necessity and mundane considerations ceases; thus in the very nature of things it lies beyond the sphere of actual material production.... Beyond it begins that development of human energy which is an end in itself, the true realm of freedom, which, however, can blossom forth only with this realm of necessity as its basis. The shortening of the working-day is its basic prerequisite".

Marx declared, in his earlier writings:

"Crude communism is only the culmination of this envy and of this levelling-down proceeding from the preconceived minimum. It has a definite, limited standard. How little this annulment of private property is really an appropriation is in fact proved by the abstract negation of the entire world of culture and civilisation, the regression to the unnatural simplicity of the poor and crude man who has few needs and who has not only failed to go beyond private property, but has not yet even reached it.

"The community is only a community of labour, and equality of wages paid out by communal capital – by the community as the universal capitalist".

And again: "The social principles of Christianity preach cowardice, self-contempt, abasement, submissiveness and humbleness, in short, all the qualities of the rabble, and the proletariat, which will not permit itself to be treated as rabble, needs its courage, its self-confidence, its pride and its sense of independence even more than its bread".

Capital in the 21st century

Economic inequality has increased. It is on a solid trend to continue increasing. The USA, the most unequal of the richer countries, may set a new historical record for income inequality by 2030, and other countries are following similar though not identical trajectories.

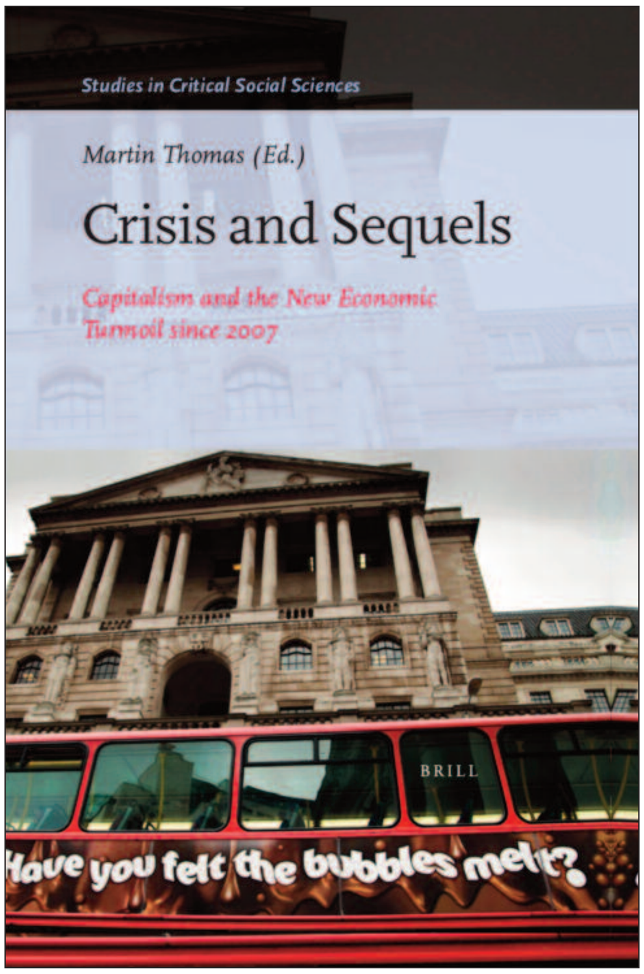
So says Thomas Piketty in his book *Capital in the 21st Century*. It has been a best-seller in many countries, despite costing £30 and stretching to six or seven hundred pages.

Politically, Piketty has been in the orbit of the French Socialist Party. He told an interviewer: "I never managed really to read [Marx]... *Das Kapital*, I think, is very difficult to read and for me it was not very influential". I suspect that's a self-deprecating fib: for example, Piketty systematically refers to the commodity which workers sell to bosses as "labour power", implicitly making the distinction between "labour" and "labour power" which is one of the things which most marks off Marxist from conventional economics.

In any case, Piketty's book studies issues of the economic history of the last century which Marx, obviously, never got a chance to think about, and which today's self-proclaimed Marxists have not studied sufficiently.

Piketty's other message, less expanded on by reviewers or even by Piketty himself, is that "the history of inequality has always been chaotic and political". "The resurgence of inequality after 1980s", he writes, "is due largely to the political shifts of the past several decades", and not to ineluctable social or technical trends.

Inequality of incomes from property was huge in Europe (not so much so in the USA) in the years before World War One, then declined a lot after the war and until recent decades.



The crash of 2008 and its sequels, discussed and debated between 14 left-wing political economists. Published by Brill, September 2017, at a price geared to university libraries. Library recommendation form at bit.ly/lib-r. Once the book is in a university library, all those with access to that library can get a printed copy at an ordinary price via Brill's "MyBook" scheme, bit.ly/cs-mybook. More on the book at http://www.brill.com/products/book/crisis-and-sequels.

A "patrimonial middle class" emerged among the 40% between the richest 10%, and the poor 50% at the bottom. That 40% owned very little wealth in 1910. By 2010 they owned houses, cars, maybe a few financial assets. Another 50% still owned almost nothing, but the 40% had taken some of what the top 10% previously had.

The best-off of the working class, and a chunk of the "professional" self-employed or semi-autonomous employees, won gains. But, Piketty argues, only big social explosions and crises — the two world wars, and the periods of revolutions or huge class struggles after them — shook the old oligarchies and forced the concessions and revaluations that allowed the rise.

"The reduction of inequality during the 20th century", Piketty told *New Left Review*, "was largely the result of violent political upheavals, and not so much of peaceful electoral democracy".

Inequality of wealth reached a low point in the 1970s, but was still high. It has since increased again. As yet overall inequality of income is less than it was a hundred years ago, except where the increases in inequality of incomes from labour have been so exceptionally large, in the USA, UK, and so on, as to push it up more.

The trend, though, is for the inequalities of income to rise, and to feed into and combine with inequalities of wealth. And specifically with inequalities of inherited wealth, which are increasing in effect.

Inequality between the top ten per cent and the rest has increased. That is only half the story. Inequality within the top ten per cent has soared even more. The top one per cent, or even the top 0.1 per cent, hold a big proportion of wealth.

Economic inequality, however, has a big effect on how much, or how little, real democracy there is in a society. Piketty titles a section: "The rentier [i.e., person who lives off income from property], enemy of democracy". In a warm review of Piketty's book, Paul Krugman in the *New York Times* sums it up well: "a drift towards oligarchy".

Piketty sees a mathematical relation between different economic rates as the driving force of wealth inequalities.

If the rate of return on wealth — the income you get from it per year, as a percentage of the stash — is greater than the overall rate of growth of the economy, then the wealthy will pay for luxury and still see their wealth increase relative to the whole economy.

The mathematical relation between the rate of return on wealth and the overall rate of growth of the economy explains less, I think, than Piketty claims. Why is the relation that way? Why, for example, are there not large surges of directly-financed (not PFI) public investment spending which boost growth without levering up the rate of return for wealthy individuals? Isn't the mathematical relation as much a result of the increasing inequality (the increasing will and ability of the ultra-rich to pocket large revenues) as a cause of it?

Piketty's use of the word "capital" is very different from a Marxist usage, and indeed from strict orthodox economic usage too. James K Galbraith, son of the famous liberal economist J K Galbraith, reviewing Piketty in the US social-democratic magazine *Dissent*, makes that point very clearly, and several others too. But if Galbraith's more exact term, "private financial valuation", is substituted for Piketty's "capital", the narrative remains strong.

Galbraith's review accepts Piketty's basic narrative, but proposes more in the way of conclusions than Piketty ever does. "Raise minimum wages! Support unions! Tax corporate profits and personal capital gains!..."

So long as we read that as an appeal to workers to mobilise ourselves to win those demands, rather than as pleas to this or that politician, that's an answer that shows the bridge from here to the "violent political upheavals" which can bring some real human equality.

FURTHER READING

***Marx's Capital*, an abridgement by Otto Rühle, published by Workers' Liberty, is a good starting point for study, and includes advice on commentaries on and guides to Capital.**

These are some of the books in which writers have taken Marx's approach further, to study new economic problems.

Vladimir Lenin, *The Development of Capitalism in Russia.*

Marx's *Capital* included a section mapping the emergence of capitalism in England. Lenin's book analyses capitalism emerging from a very different, and globally more typical, background.

Rudolf Hilferding, *Finance Capital.*

Much of volumes 2 and 3 of Capital is concerned with capitalist finance, but what we have there is a compilation by Engels of what Marx left only as rough notes. Hilferding continued the study into an era where banks and financiers were becoming central to the system.

Vladimir Lenin, *Imperialism, the Highest Stage of Capitalism.*

Lenin wrote a "popular outline" to summarise the analyses of early-20th century "high imperialism" made by Karl Kautsky, Rudolf Hilferding, and others, and draw out conclusions about World War One. Discussions in the light of the hundred years since then can be found in Sean Matgamna's book *The Left in Disarray* and at www.workersliberty.org/empire.

Rosa Luxemburg, *The Accumulation of Capital.*

Luxemburg based her argument, and her alternative account of "high imperialism", on the claim that Marx had made mistakes in volume 2 of *Capital*. Other Marxists of the time, notably Nikolai Bukharin, argued (convincingly) that Luxemburg herself had made errors. Yet her book has much to learn from.

Harry Braverman, *Labour and Monopoly Capital.*

Braverman, an ex-Trotskyist, made the first serious attempt to update Marx's analyses of the labour process.

Ernest Mandel, *Late Capitalism.*

The physicist Wolfgang Pauli once remarked of some theorisations that they were "not even wrong". Mandel's attempt to synthesise a picture of 1970s capitalism was, I think, wrong on almost every point; but that was a vast advance on being so vacuous as to be "not even wrong", as much other writing was. A critique at www.workersliberty.org/node/24447.

Alain Lipietz, *The Enchanted World.*

Lipietz's book analyses money and prices in the era where they have been detached from any precious-metal standard, and also sketches the common ideas of the "regulation school" of French Marxist economists. The "regulation school" has been scathingly criticised by Robert Brenner and Mark Glick: bit.ly/br-gl.

Robert Brenner, *The Economics of Global Turbulence.*

This book was designed as an analysis of the turmoil into which capitalism fell from the early 1970s, after a 25-year "golden age" from the late 1940s. In my view it is even more valuable for its analysis of that "golden age". A critique of its views of more recent capitalism is an appendix to *Crisis and Sequels* (see below).

Ellen Wood, *Empire of Capital.*

A short, crisp account of how economic "imperialism", in the sense of — the relation of strong capitalist centres to weaker ones, — has developed in the modern era.

Leo Panitch and Sam Gindin, *The Making of Global Capitalism.*

A larger account, with a substantial historical perspective, on the emergence of a US-dominated global capitalist order after World War Two, and its reconfiguring after 1989-91.

Thomas Piketty, *Capital in the 21st Century.*

Reviewed on this page.

Martin Thomas (ed), *Crisis and Sequels.*

Discussions with 14 contemporary left-wing economists, and a substantial introduction and afterword, explore the crash of 2008, the neoliberal order from which it emerged, and the ways in which Marxist crisis theory must be updated. More details on this page.