The Life and Death of Stalinism

Chapter 1
The Contradictions of Capitalism

1. VALUE AND WAGE LABOR

To understand any modern society it is essential to probe beneath its surface and illuminate its fundamental economic laws of motion, as Marx did for capitalism. Since the Soviet system originated through the degeneration of a society transitional from capitalism to socialism, the laws of capitalism are a necessary starting point, even if we did not consider that system today to be capitalist.

The interesting fact came to light when U.S. president George Bush visited Hungary in 1989 that Karl Marx University in Budapest no longer requires the study of Marx's major scientific work, *Capital*. More modern theories are needed, the public was told, and in any case the economic collapse of the Stalinist countries has discredited Marxism. The Hungarian authorities may indeed need capital rather than *Capital* to salvage their economy. But to understand why such things have come to pass there is no alternative but to consult Marx.

Marx gave *Capital* the subtitle, "A Critique of Political Economy." It is indeed a highly polemical work, directed against the vulgar economists and bourgeois apologists of his day. But not only them: it is also a critique of the petty-bourgeois populists and anarchists who found the source of capitalism's drives and crises in the sphere of distribution rather than production. It applies equally well to their modern counterparts, the middle-class Marxists who see the motive force of capitalism arising out of relations within the bourgeoisie.

In contrast, we stress the fundamental role of the struggle between classes *in production* — the conscious transformation of the material world — as the basis for the laws of motion of bourgeois society. At the core of Marx's method is the recognition that society, like matter, is always in a process of change. The laws of any society therefore also develop and change through its internal contradictions. This too contrasts with the static conceptions of middle-class Marxism.

MODES OF EXPLOITATION

Capital opens with this brief paragraph:

> "The wealth of those societies in which the capitalist mode of production prevails presents itself as 'an immense collection of commodities,' its unit being the single commodity. Our investigation must therefore begin with the analysis of a commodity."[1]

Marx begins his analysis with commodities, and for many Marxists that is where it ends. The clue to Marx's real meaning, however, is in the wording *presents itself* — or in an alternative English translation, *appears*. Marx used such terms deliberately, to distinguish between appearance and essence. His volumes of economic work are devoted to exploring the reality

1. *Capital*, Vol. I, Chapter 1 (p. 35 in the International Publishers edition, to which page references apply unless specified.)

beneath the appearance. The determining factor of capitalism is not simply the existence of commodities but rather the commodification of labor. This defines the system's specific mode of exploitation, the way the ruling class appropriates the surplus product created by the producers.

To see that this was Marx's view, we first note that the key to any society lies in the struggle between its ruling and producing classes. Thus the *Communist Manifesto* begins:

> "The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman — in a word, oppressor and oppressed — stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open, fight, a fight that each time ended either in a revolutionary reconstitution of society at large or in the common ruin of the contending classes."

The main battlefield of the class struggle is the surplus product. What distinguishes one form of society from another is the way in which the ruling class exploits the producing class; that is, the way the surplus product is appropriated:

> "The essential difference between the various economic social formations, between for instance, a society based on slave labor and one based on wage labor, lies only in the mode in which this surplus labor is in each case extracted from the actual producer."[2]

Near the end of *Capital* Marx outlines the full significance of the difference between modes of exploitation:

> "The specific economic form in which unpaid surplus labor is pumped out of the direct producers determines the relationship of rulers and ruled, as it grows directly out of production itself and in turn reacts upon it as a determinant. But on it is based the entire formation of the economic community growing out of the productive relations themselves, and therewith its specific political form likewise.
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> "It is always the direct relationship of the owners of the conditions of production to the direct producers — a relationship whose actual form always naturally corresponds to a definite stage of development in the ways and means of labor and hence its social productive power — which reveals the innermost secret, the hidden foundation of the entire social structure and hence also of the political form of the sovereignty-dependency relationship — in short, of the specific form of the state in each case.
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> "This does not gainsay the fact that, due to innumerable different empirical circumstances (natural conditions, racial relations, outside historical influences, etc.), the same economic basis — the same in terms of the main conditions — can show infinite variations and gradations in the phenomenon, which can be grasped only by analyzing these empirically given circumstances."[3f]

This masterful summation expresses the inescapable bond linking the form of exploitation, the social structure and the state. Applied to capitalism, it means that the wage-labor relation is the

2. *Capital*, Vol. I, Chapter 9, section 1 (p. 217).
3. *Capital*, Vol. III, Chapter 47, section 2 (p. 791).

foundation of the bourgeois state. It notes further that this state and its accompanying social structure can take many different forms ("infinite variations and gradations in appearance"). Nevertheless, all will be capitalist ("the same economic base ... with regard to its principal conditions"), as long as the surplus labor is extracted through wage labor — which means that the surplus product takes the form of surplus value.

Well known though this passage is, it is all too often misrepresented. When Marx writes of the "specific economic form in which surplus labor is pumped out," Marxist experts do not see that he is referring to the method of exploitation. Ernest Mandel, for example, interprets the passage as a refutation of the claim (by Milovan Djilas) that the USSR is state capitalist, since capitalism and Stalinism appear to have different ways of extracting surplus product:

> "For what is the *form of appropriation* specific to capitalism? Does this *form* still exist in the Soviet Union? Under capitalism, the surplus social product is appropriated by the owning class *in the form of money* following the sale of merchandise. In the USSR the surplus product is appropriated by the state *in the form of merchandise* through the realization of the plan; the *financial* bankruptcy of enterprises (which sometimes takes place in the USSR) has no effect either on this appropriation, or on accumulation."[4]

Whereas for Marx the form of surplus extraction means the mode of exploitation — that is, the relation between the ruling and producing classes — for Mandel it means only the superficial form taken by the surplus once it has been extracted: whether it is money or not. Mandel says that the essence of capitalism is "generalized commodity production," which he recognizes only through the sale of merchandise for cash. But although capitalism is commodity production, the exchange of its products for money is only its appearance. Its essence is wage-labor exploitation.

Mandel has also been bewitched by a secondary (and temporary) phenomenon, the suppression of capitalist monetary forms in the USSR. But times change. The difference he perceived between East and West led Mandel to a conclusion now easily seen to be wrong. Since several "socialist" countries have reformed their economies to enlarge profit's economic role, going so far as to force unprofitable enterprises to shut down, it is clear that financial bankruptcy does disrupt appropriation and accumulation — and it has been a disruptive factor all along. The policy of preserving unprofitable firms only hides the system's inefficiency under the surface; if obsolescent firms stay in operation, their backwardness dampens accumulation. Bypassing monetary forms does not make the system non-capitalist; it only masks the operation of capitalism's laws, as we will see in Chapter 5.

Another example: Branko Horvat, a leading Yugoslav economist and planner, uses a similar misreading of Marx to justify his view that the Soviet system is not capitalist but a third system he calls "étatism":

> "The basic difference between a society based on capitalist wage labor and one based on étatist wage labor lies in the mode in which surplus labor is extracted: in the former case, private property, and in the latter, state property,

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4. Ernest Germain (Mandel), "The Theory of 'State Capitalism'," *Fourth International* (1951).

determine this mode."[5]

Horvat admits that the two societies have wage labor in common but, like Mandel, insists that the "mode in which surplus labor is extracted" means the form in which the exploiters hold their property. He too has extracted a few words from Marx and left the content behind. One self-serving consequence of denying that wage labor characterizes a particular mode of exploitation is that Horvat can then conclude that the Yugoslav economy, although also based on wage labor, is neither capitalist nor étatist; it is characterized by "social property" and therefore avoids exploitation completely.[6]

Like bourgeois theorists, Mandel and Horvat accept the idea of a world fundamentally divided between market and planned economies. That the two modern variants of capitalism differ in how the rulers allocate the surplus value among themselves is important but secondary. These differences are among the "infinite variations and gradations in appearance" — of the same mode of production, capitalism. As we will see, they result from the fact that capitalism's laws of motion are not static and of necessity give rise to different forms of distribution of surplus value at different historical stages of development.

Mandel and Horvat (and many others) reveal their misunderstanding of ordinary capitalism in distinguishing it from Stalinism. The mode of surplus extraction in capitalism for them is defined by relations among the capitalists, not the relation of class exploitation. What is missing is the proletarian root of Marxism, expressed at the very end of *Capital*, "In view of what has already been said, it is superfluous to demonstrate anew that the relation between capital and wage labor determines the entire character of the mode of production."[7]

Evidently it is not superfluous for today's Marxists.

THE LABOR THEORY OF VALUE

We now trace the line of reasoning through which Marx derived the fundamental importance of wage labor.

The study of commodities begins with their value. Commodities are goods made by private — that is, separate — producers in order to be exchanged for other goods. Exchanging goods, as opposed to producing them in common, brings the producers into social relation with one another. For exchange to happen each product must have a **use value**, a useful quality required by others or by society generally — although utility is not what determines how they exchange.

The prices at which commodities are bought and sold are perceived in bourgeois theory as their true values. For Marx, however, a commodity's price is only a semblance of its underlying **value**, the labor time required for its production. This value is first reflected in the form of money by the commodity's **exchange value**: this much labor time corresponds to that much

5. Branko Horvat, *The Political Economy of Socialism* (1982), p. 48.
6. Horvat, p. 236.
7. *Capital*, Vol. III, Chapter 51 (pp. 879-80).

money, leaving aside refinements to be discussed shortly. In turn, the ever-changing **price** of the commodity on the market fluctuates around exchange-value.[8]

Marx is sometimes criticized for failing to prove the labor theory of value. In fact he made no attempt to provide a "proof" from abstract first principles; the real test was practice. His justification for using the theory was based, first, on its correspondence with economic reality, as we will see in discussing wage labor; and, second, on the laws of capitalism's motion and development that he derived from the law of value. No other theory has been able to explain capitalism and, most important, its historical changes, with anything like the success of Marx's.

The theory that value is based on labor time was not invented by Marx; it was the common understanding of the classic bourgeois economists. It allows capitalist apologists to declare the system's basic principle to be equal exchange: that is, that commodities of equal value can be exchanged for one another. By this ideological self-justification capitalism presents itself as a society founded on equality — despite its great extremes of wealth and privilege,

Capitalism also claims to be the embodiment of economic freedom: owners of commodities are free in the sense that they have the right to find buyers of their choosing on the market in order to obtain the greatest possible value in exchange. It was no accident that "liberty" and "equality" were watchwords of the great French bourgeois revolution, or that the idea of democracy was entwined with the spread of capitalism.

Marx showed what was valid in these ideas: by overcoming feudal restrictions, capitalism set forces in motion that brought the masses onto the stage of history. It is the progressive function of capitalism to provide the material base for a society of genuine freedom in the future. However, a central purpose of Marx's analysis was to puncture the illusion that capitalism *itself* could liberate humanity.

Capitalism in fact is a society of monstrous inequality. As well, especially in the present epoch of imperialism, it is the enemy of liberty on a world scale. Behind this reversed reality stands the law of value. As Engels wrote, "The value form of products ... already contains in germ the whole capitalist form of production, the antagonism between capitalists and wage workers, the industrial reserve army, crises."[9] We will sketch how Marx unraveled the implications which value contains "in germ."

First, labor embodied in different commodities must be comparable. So labor in every specific line of work, as well each different level of skill, is evaluated by reducing it to units of **simple** (unskilled) and **abstract** (as opposed to specific or **concrete**) labor. The value of a commodity is determined not by the production of that one item alone but rather as the fraction of society's total simple, abstract labor devoted to it.

Second, the labor time determining the value of a commodity must be **socially necessary**: value

8. When calculating in monetary terms, Marx often said "value" for short instead of exchange value, and we do the same.
9. Engels, *Anti-Duhring*, Part 3, Chapter 4 (Moscow, 1934; p. 347).

is not determined individually. If, for example, a worker takes twice as long as the norm to produce a given commodity, the commodity's value is not doubled — on the contrary, half the worker's labor time has been wasted. Likewise, if capitalists in a given sphere of industry produce more of a commodity than can be sold, the totality of labor time embodied in those products cannot be realized as value. A portion of it has been wasted because it lacks social necessity, understanding that necessity in capitalist society has to be backed by money; it does not mean there are not people who lack such products and could use them.

On the other hand, if one capitalist finds a way of producing a commodity using less labor time than is normal, the value of that commodity need not immediately decrease. It remains the same until other producers are able, on the average, to reduce the necessary labor time. Indeed, much of the inspiration for innovation under capitalism derives from entrepreneurs' temporary opportunity to sell commodities at their (previously determined) exchange value, even though they may be able to produce them for less.

In brief, the value of a commodity is really measured by the labor required for its *re*production. So if production techniques improve during the useful life of a commodity, its value declines, since reproducing it requires less time than did producing it originally with less advanced methods. The value of a commodity is therefore not constant but is constantly changing (normally decreasing), according to the changing techniques of production and the availability of workers, machines and materials.

Further, for commodities to become exchangeable, there must exist a special commodity which represents their value directly as a universal equivalent. That is the function of **money**, which appears initially in the form of a tangible, value-embodying commodity like gold; it enables society to measure the various concrete forms of embodied labor as portions of the common abstract labor.

People are often surprised to learn that the values of commodities tend to decrease, because the prices of most things they buy are always rising. But that appearance is an illusion brought about by money; it is not a direct reflection of value. At times when currencies are stable, if labor values decline so do exchange values and prices on the whole. But nowadays the operation of capitalism determines that currencies are continually debased, so it takes more money to buy a given commodity than before, even a commodity whose value is falling. Only in special cases of rapidly reducing value, as with some electronic goods today, does the monetary price actually decline despite the general inflation of prices.

This illustrates an essential aspect of *Marx*'s theory of value. Exchange value (and therefore price as well) reflects a commodity's underlying value only imprecisely. Not only does the value of the money commodity change (as is true of every commodity); money has to be used not only as a simple value equivalent but also as a medium for rapid and convenient exchange over great distances, and for the storage of value over time. These functions necessitate that money is constantly created artificially through the credit system. As well, money has to be represented by paper and other symbolic tokens — which opens up relatively simple opportunities for *mis*-representation of its value (both legal and illegal). Inherent in the nature of exchange value, therefore, is the possibility of fictitious value: forms of value not based on actual labor in production. The crude equivalence of exchange value to value worsens as capitalism decays in its epoch of imperialism, as we will see in the next chapter.

In contrast, in a pre-capitalist society of simple commodity production where craftspeople obtained tools and materials from familiar sources, values could be easily measured if not scientifically compared. But as capitalism extended commodity production, incorporated all other historical modes of labor into its realm and created a world economy, the complexities of value widened. The exchange of commodities cannot be fully regulated by labor time until labor power is treated as a commodity. As well, capital itself becomes a commodity, and this distorts the exchange value of all commodities in various ways, as we shall see. When we refer to the labor theory of value (or law of value), we mean the general point that the value of commodities is determined by their embodied labor time — without specifying distortions or complexities.

CONTRADICTIONS OF VALUE

It is unfortunately quite common for theorists to accept Marx's categories but fill them with an entirely different content. The main source of illusions about capitalism is the "common-sense" idea that value is determined by the market rather than by production. This fallacy is nurtured by the fact that commodities are defined as such by the act of exchange. Bourgeois theory holds that the market forces of supply and demand govern the price at which a commodity can be sold and are therefore the basis of its value. Marx noted in response that even when supply and demand are in equilibrium, the value of the commodity still remains to be determined, and this depends on the amount of abstract labor embodied in it; when not in balance, supply and demand affect the price only within limits set by the conditions of production.

The bourgeois view is echoed by middle-class Marxists. For example:

> "An economy governed by the law of value is an economy in which production, and therefore investment, is guided by effective demand. What operates here primarily is not so much the difference in the intensity of different needs of different individuals; what is decisive is the difference in incomes. Thus production is directed toward satisfying the needs of the privileged layers first. Production of luxury items is stimulated before the elementary needs of the mass of the population are met."[10]

This is the essence of a petty-bourgeois muckraker's notion of capitalism, denouncing the system for the privileges it grants to "malefactors of great wealth." Aping academic sociologists, Mandel chooses income differentials as capitalism's motive force, not even the difference in class interests that a Marxist looks for. It is a standard myth of petty-bourgeois economics that capitalism is propelled by consumer sovereignty; Mandel only adds that the motivating desires are really those of the ruling capitalists. This argument can only mesh with a populist and not a working-class political challenge to capitalism.

Marx answered Mandel personally, a century ahead of time:

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10. Mandel, "Economics of the Transition Period," in *Fifty Years of World Revolution* (1968), pp. 281-2.

> "It must never be forgotten that the production of this surplus value ... is the immediate purpose and compelling motive of capitalist production. It will never do, therefore, to represent capitalist production as something which it is not, namely as production whose immediate purpose is enjoyment of the manufacture of the means of enjoyment for the capitalist. This would be overlooking its specific character, which is revealed in all its inner essence."[11]

What "must never be forgotten" has long been erased from the memories of the Marxist pretenders.

Another common confusion over the "law of value" is whether it is the basis of capitalism's laws of motion as they actually operate, or the guiding rule for a rational social system that capitalism can never attain. Taking the second point of view, the prominent left bourgeois economist Joan Robinson wrote:

> "Marx believed that, under socialism, the labor theory of value would come into its own. 'Only when production will be under the conscious and prearranged control of society, will society establish a direct relation between the quantity of social labor-time employed in the production of definite articles and the quantity of the demand of society for them. ... The exchange, or sale, of commodities at their value is the rational way, the natural law of their equilibrium.' "[12]

Robinson here distorts Marx in order to argue that, for him, the labor theory of value is the rational regulator of socialism. But that is in fact a total misunderstanding of Marx's intention.

The first sentence she quoted from Marx offers a glimpse of socialist society: conscious control of production establishing a scientific connection between the supply of goods and the demand for them. Even though Marx speaks of the quantity of social labor time, however, we can be sure he is not referring to value, because the law of value has nothing to do with the "conscious and prearranged control of society." It is a blind law operating behind the backs of individuals who cannot control it. (What does happen under socialism, as we will show in Chapter 3, is that the *form* of value — the transfer of equal quantities of labor time — is retained, while its *content* based on exploitation is abolished.)

This sentence about socialism is a parenthetical remark inserted into a discussion of capitalism in order to emphasize that under capitalism the amount of labor time embodied in a commodity need *not* correspond to the social demand. The second sentence quoted, torn out of its original context, is part of this discussion of value under capitalism; it simply asserts that the capitalist goal is to exchange according to (exchange) value. But the intervening part of Marx's argument (which Robinson chooses not to quote) shows that this goal, rational though it is, is only achieved accidentally under capitalism.[13]

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11. *Capital*, Vol. III, Chapter 15, Part I (pp. 243-4). For "surplus value," see below.
12. Robinson, *An Essay on Marxian Economics* (1942), p. 23. The passage from Marx is in *Capital*, Vol. III, Chapter 10 (pp. 187-8).
13. A distortion of Marx identical to Robinson's was committed by Joseph Seymour in the Spartacist League pamphlet *Why the USSR is Not Capitalist* (1977), p. 31.

That is because capitalism cannot regulate the supply of commodities in advance: supply and demand inevitably move in and out of their rational relation. The law of value as the system's "natural law of equilibrium" governs not the day-to-day relations among people but only the *average* behavior of prices, supply and demand. Price constantly fluctuates around value, which in turn always changes.

As Marx concluded the passage which Robinson cites: "It is this law that explains the deviations, and not vice versa, the deviations that explain the law." The law of value regulates a class-ridden, anarchic system by indicating the rational goals that individual exchangers under capitalism can only achieve temporarily, if at all, and by chance. It does not eliminate the system's anarchy but only accounts for it.

The fact that capitalist economy inevitably diverges from its rational pretenses reflects what Marx called the contradictions of the form of value. These are tensions between two inherent aspects of value — concrete and abstract labor, for example, or use value and exchange value — that propel capitalism to change and develop. They also drive the system to the periodic crises as well as long-term decay which have shaped its turbulent history.

The primary contradiction of capitalist society is between social production and private appropriation. Given the universal interchange of commodities generated by production for value, economic relations become thoroughly socialized. No worker, no community, no country can possibly be self-sufficient. Every commodity contains embodied labor contributed to it, directly and indirectly, by workers throughout the globe. Yet even at the highest stages of socialization under capitalism, the organization of production and the appropriation of life's goods remain private, separated from social control.

Closely related is the contradiction between use value and exchange value. This exists because the value and use value of a commodity are ratified by "the market" only after the act of production, as we have already seen in part. Production is in the hands of separate capitals, but the goods produced are destined for social use: consumption or further stages of production by other agents. The individual capitalist's production of value and use value does not guarantee their acceptance by capital as a whole. A commodity may have been produced through the expenditure of labor (and therefore may seem to be a bearer of value), yet if it has no use, or has been produced in quantities beyond what can be used, its value is wasted and becomes null. Alternatively, a commodity may have use value, but if the value and therefore the profit it yields is insufficient, its production will cease.

These contradictions reflect the fact that the two fundamental classes of capitalist society are locked in a struggle over the allocation of value. On the one hand, the drive for value makes capitalist production social and compels the contending classes to become national and then international. On the other, capitalist relations not only separate society into rival classes; they also divide each class into individual, local and national competitors. That the working class's struggle against capital impels it toward unity indicates that the system's laws drive the proletariat to overcome capitalist relations.

WAGE LABOR

Marx introduced a useful distinction to analyze value more precisely. The labor time embodied in a commodity can be divided into two parts: the **living labor** expended by the workers who produce it directly, and the **dead labor** previously embodied in the means of production (materials, tools, factories, etc.), used by the immediate producers but produced in the past. The value contained in such means of production is transferred to the commodities being produced without creating any additional value. New value can be created only as living labor brought into production by the proletariat.

To illustrate the distinction, making a productive improvement generally means introducing a technique that produces commodities at a faster rate, so that the living labor required for each commodity declines. If the value of the living labor saved is less than the additional dead labor that the new technique costs, then the overall value of the commodity has decreased.

One essential commodity under capitalism is not produced in the usual way. Since capitalism assigns an exchange value to every commodity, it does so with labor too. Labor — or more accurately **labor power**, the workers' capacity to labor — becomes a commodity owned by workers which they sell to capitalists in return for payment: their wage. Underlying the wage, which is precisely the exchange value of labor power, is the value of labor power. This is based on the value of the commodities (food, clothing, shelter, training, etc.) needed by the workers and their families to reproduce the working class. The fact that wages are normally paid per hour or day — that is, according to the duration of time worked — illustrates the reality of the labor theory of value: the value of commodities produced depends on the labor time they contain.

As with all commodities, the value of labor power is constantly changing. It decreases because of advances in the techniques of producing the workers' necessities. But it also tends to increase because it contains what Marx called a "historical and moral element," the degree of training, education and civilization that society requires of its workers. This element is largely determined through class struggle, even when improvements in the workers' conditions benefit the capitalists as well by making higher productivity possible.

The commodity labor power has a unique use value: it creates new value. Moreover, the value that the laborer creates must be greater than the value of his or her labor power. In the process of capitalist production, therefore, the value of the workers' living labor divides into two categories. One portion, **paid labor**, corresponds to the value of labor power and is taken by the workers in the form of wages. The remaining portion, **unpaid labor** or **surplus value**, goes to the capitalists; it is the source of their profit, interest and rent. The extraction of surplus value is the uniquely capitalist form of exploitation.

Unlike in pre-capitalist societies, capitalism's surplus is disguised by the equal exchange of value: labor power for wages. Exploitation of slaves by their masters was naked: what the slaves produced was owned by the master who chose what to give back, normally just enough for the slaves to subsist. Under feudalism, the serf had some rights against the lord, but here too exploitative class relations were transparent. But under capitalism the relations between people are hidden beneath objects and forms and appear to be between things — commodities.

Marx wrote *Capital* to reveal the system's inner essence behind its outer trappings. The commodity is the necessary form of appearance of capitalist exploitation. Nevertheless, we have seen how middle-class Marxists believe that the commodity form rather than the class struggle is the key to the system (and therefore that Stalinist societies, where commodity markets are suppressed, cannot be capitalist). As Marx polemicized against their ancestors:

> "It is a definite social relation between men that assumes in their eyes the fantastic form of a relations between things. In order, therefore, to find an analogy, we must have recourse to the mist-enveloped regions of the religious world. In that world the productions of the human brain appear as independent beings endowed with life, and entering into relation both with one another and the human race. So it is in the world of commodities with the products of men's hands. This I call the fetishism which attaches itself to the products of labor, as soon as they are produced as commodities, and which is therefore inseparable from the production of commodities."[14]

The commodity is not simply a thing exchanged between separate owners. It is the product of wage labor, the outcome of a particular form of exploitation. That is what defines the nature of capitalism.

THE LAW OF INEQUALITY

As capitalism developed out of feudal society, it forcibly separated the direct producers from their means of production. Eventually the buying and selling of labor power came to govern the labor of the majority of producers. Industrial capital depends on creating a class of proletarians who possess no means of production; the materials, machines and factories are owned by a separate class, the bourgeoisie.

Marx noted ironically that the bourgeois ideal of freedom applies to the proletarians as well. The workers are "free" in a dual sense. On the one side, they are no longer part of the means of production owned by their masters; the capitalists buy labor power, not labor. On the other side, they are dispossessed of any means of production and are therefore free to sell their labor power to whomever they like. Obviously they are obliged by the threat of starvation to sell themselves to *some* boss on the market. The petty-bourgeois dream of a capitalist society made up of equal, independent and self-sufficient property owners is a fantasy concealing the exploitation and frequent mass misery of the workers.

In addition to the class-based inequality inherent in capitalism, the system has developed other forms of oppression — based on sex, race, nationality, etc.; some of these it inherited from previous class societies and turned them to its own ends. They serve not only to preserve social structures useful to capitalism — for example, the nation and the family — but also to institutionalize divisions within the working class and thereby weaken its resistance to exploitation.

The "free" character of wage labor makes exploitation collective. No longer are the producers of

14. *Capital*, Vol. I, Chapter 1, Section 4 (p. 72).

society's surplus product tied to individual owners, as were slaves; nor to specific landed property, like serfs; nor to their own property and specialized trade, like the petty-bourgeoisie descended from guildsmen and artisans. The proletarians are exploited as a class, by the exploiters as a class. Despite the evident competition between capitals, the labor market creates social classes which represent *as a whole* the opposite sides of the exploitation relation.

With the creation of the modern proletariat by industrial capitalism, wage labor underwent a transformation. Individual craftsmen were replaced by laborers forced to sell themselves to the highest bidder in whatever trade. Workers' labor power became increasingly interchangeable and uniform. As well, technological advances robbed the workers of their traditional skills. These processes helped create the actual category of abstract labor.

Thus the law of value first came to genuine fruition under industrial capitalism; it could only be prefigured in a partial sense under earlier forms of commodity production. As Marx wrote:

> "The secret of the expression of value, namely, that all kinds of labor are equal and equivalent, because and so far as they are human labor in general, cannot be deciphered until the notion of human equality has already acquired the fixity of a popular prejudice. This, however, is possible only in a society in which the great mass of the produce of labor takes the form of commodities, in which, consequently, the dominant relation between man and man is that of owners of commodities."[15]

Hence the fundamental link between wage labor and the law of value. On the one hand, capitalist production — the operation of the law of value — makes labor power a commodity; labor is necessarily wage labor. On the other hand, under pre-capitalist commodity production, exchange value existed but could only be based on concrete labor, not on a true underlying value. Only capitalist production, which employs labor measured according to time, creates the genuine value category of embodied abstract labor. Thus the existence of a proletariat and the validity of the law of value are equivalent conditions. Marxists who deny that the law of value applies to Stalinism but nevertheless acknowledge the existence of a Soviet proletariat make a fundamental error. To deny one is to deny the other.

Marx transformed the labor theory of value in two ways: he distinguished labor from the commodity labor power; and he uncovered the extraction of surplus value through wage labor. His analysis revealed the class nature of the law. Since ownership of capital dominates the possession of mere labor power, dead labor dominates living. Capitalists assume the right to appropriate not only a value equivalent to the workers' wages (and to the dead labor they supply) but also the surplus value produced. Thus the laws of capital

> "become by their own inner and inexorable dialectic changed into their very opposite. The exchange of equivalents, the original operation with which we started, has now become turned around in such a way that there is only an apparent exchange."[16]

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15. *Capital*, Vol. I, Chapter 1, Section 3.A.3 (p. 60).
16. *Capital*, Vol. I, Chapter 24, Section 1 (p. 583).

As the gulf between bourgeoisie and proletariat evolved and expanded, the law of value was transformed from a principle of equality to the embodiment of inequality. We will show in Chapter 4 that a similar process of intensification of inequality took place during the Stalinist counterrevolution in the USSR. Far from overcoming the law of value, Stalinism enforced it.

2. THE ACCUMULATION OF CAPITAL

Capital originated historically in pre-capitalist societies as money which merchants and bankers invested in trade or usury for profit. But just as the value of commodities did not fulfill its own laws until labor power became an available commodity, so too capital came into its own only as property in the means of production through which surplus value was extracted from wage laborers.

The wage relation allows for a far greater degree of exploitation than was ever possible in the past. Under previous modes of production, the surplus product appropriated by the exploiters was determined by custom as a more or less fixed amount in advance; the direct producers lived if they could on what remained. The extraction of surplus was limited by “the walls of the lord’s stomach.” The rulers would at times need to squeeze out more, but they were restricted by the danger of starving the producers and thereby halting production.

Under wage labor, in contrast, the compensation of employed producers is essentially established in advance; the bosses take what remains. Liberated from restrictive traditions, the bourgeoisie has every incentive to expand this surplus. The producers, “free” of the means of production, are compelled to work under conditions chosen by the employers. As a result, wage workers produce an enormous surplus without being entitled to any of it.

The bosses’ appropriation of surplus value makes possible the expansion of capital, and it is made necessary by the class struggle of the producers against their exploiters. For Marx:

> “The directing motive, the end and aim of capitalist production, is to extract the greatest possible amount of surplus value and consequently to exploit labor power to the greatest possible extent. As the number of cooperating laborers increases, so too does their resistance to the domination of capital, and with it, the necessity for capital to overcome this resistance by counterpressure. The control exercised by the capitalist is not only a special function due to the nature of the social labor process and peculiar to that process, but it is at the same time a function of the exploitation of a social labor process, and is consequently rooted in the unavoidable antagonism between the exploiter and the living and laboring raw material he exploits.”[17]

The amount of surplus value extracted is the main issue in the class struggle between capitalists and workers. Capitalism expands by reinvesting the surplus value it appropriates: this is the **accumulation** of capital.

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17. *Capital*, Vol. I, Chapter 13 (p. 331).

RELATIVE SURPLUS VALUE

Capitalists have always attempted to squeeze more surplus value out of workers by increasing the duration and intensity of labor (Marx called this the increase of **absolute** surplus value). Such measures inevitably intensify workers' resistance. The bosses' alternative is to reduce the costs of production. In the case of materials and machines, they can try to buy these more cheaply (from other bosses under the same compulsion to lower prices). The commodity labor power, however, is "produced" by the working class; and as the proletariat becomes stronger and more organized, its monopoly of labor power drives wages up. So the bourgeoisie strives to weaken the proletariat by decreasing its role in production and enlarging the "reserve army" of the unemployed as a constant threat to replace employed workers.

"It would be possible," wrote Marx, "to write quite a history of the inventions made since 1830 for the sole purpose of supplying capital with weapons against the revolt of the working class."[18] Marx's "general law of capitalist accumulation" was the expulsion of workers from the process of production.

The capitalists' best form of "counterpressure" is to replace workers in the production process by machinery, living labor by dead labor. This not only enables the individual capitalist to employ less labor; as well, since higher productivity lowers the value of commodities, for the bourgeoisie as a whole it cheapens the goods workers need and thereby lowers the cost of labor power. This method is therefore called increasing **relative** surplus value. It is the characteristic form of capital accumulation, an economic mode of disciplining the working class that distinguishes capitalism from other class societies. (Of course, like all ruling classes the bourgeoisie also uses violence to keep the workers in check.)

From the standpoint of capital, the counterposition between dead and living labor depends on how capital is invested. **Variable** capital pays for labor power, which creates new (surplus) value for the capitalist. **Constant** capital buys dead labor, which transfers value already embodied in it to the new products. Constant capital further divides between **circulating** constant capital like raw materials, whose value is transferred whole into the commodities immediately produced; and **fixed** capital like buildings and machinery, whose value is subdivided among the commodities that it helps produce throughout its useful life.

The value of every commodity, therefore, consists of three components: variable capital V, paid to the immediate producers; constant capital C, paid to the owners of the materials, supplies and other means of production used; and surplus value S, the unpaid portion of living labor appropriated by the capitalist. The total value of the commodity can be expressed as $C + V + S$. The extraction of relative surplus value implies not only the growth of C at a greater pace than V; it also means that fixed capital grows most rapidly.

There is a further distinction to be made. Marx divided production into two departments, Department 1 for producers' goods and Department 2 for consumers' goods. The output of

18. *Capital*, Vol. I, Chapter 15, section 5 (p. 436).

Department 1 re-enters production as constant capital; the output of Department 2 becomes variable capital. So the advance of productivity, the expansion of constant capital ahead of variable capital, implies also that Department 1 expands more rapidly than Department 2.

The inherent drive for capital accumulation, taking the form of the relative increase of surplus value, is the key to the immense expansion of capitalism. And once the accumulation of relative surplus value begins, its continuation is forced on the bourgeoisie by the internal pressure of competition. In 1847 Marx and Engels wrote in the *Communist Manifesto* that "the bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together."

The reverse side of this achievement is that labor is condemned to enslavement by capital. The "equal exchange" of labor power for wages allows the capitalists to appropriate surplus value without returning an equivalent. It results in vast inequalities between classes (and within them); capital accumulation only intensifies the disparity.

> "Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, and moral degradation at the opposite pole, i.e., on the side of the class that produces its own product in the form of capital."[19]

CONCENTRATION AND CENTRALIZATION

It is often stated by Marxist as well as bourgeois theorists that the motivation driving the individual capitalist is to maximize his rate of profit. But this, like the goal of extracting the maximum of surplus value, is only a means to the real end. As Marx put it, the "aim [of the capitalist mode of production] is to preserve the value of the existing capital and promote its self-expansion to the highest limit (i.e., to promote an ever more rapid growth of this value)."[20] This aim, we shall see later, is counterposed to capitalism's "tendency towards absolute development of the productive forces, regardless of the value and surplus-value it contains ...". That is, capitalism strives to expand the value form even at the expense of developing use values. The conflict of these tendencies, the most visible expression of the contradictions of value, is the key to the analysis of capitalism's crises.

Accumulation occurs both through the of **concentration** of capital — the growth of individual capitals through reinvestment of their own surplus value — and through the **centralization** of capital in the hands of fewer and fewer capitalists who take over the property of others. The weaker capitalists who are unable to expand or modernize rapidly enough are driven out of business and expropriated by the stronger. (The two terms here are defined in Marx's sense, which is not identical with common usage today.)

Several dangers for the bourgeoisie are inherent in both aspects of accumulation, aside from the obvious destruction of capitalists. One is that accumulation is accompanied by periodic crises that weaken the masses' confidence in the rulers' ability to run society. Another is that expansion

19. *Capital*, Vol. I, Chapter 25 (p. 645).
20. *Capital*, Vol. III, Chapter 15, section 2 (p. 249).

devalues capital and thereby counters the bourgeoisie's goal of expanding its capital. Linked to both of these is the increasing concentration and organization of the proletariat, unified and strengthened by capitalism's socialization of labor — a threat to the very existence of capitalism. Here is Marx's summary of the process, a concise dialectical masterpiece:

> "As soon as this process of transformation has sufficiently decomposed the old society from top to bottom, as soon as the laborers are turned into proletarians, their means of labor into capital, as soon as the capitalist mode of production stands on its own feet, then the further socialization of labor and further transformation of the land and other means of production into socially exploited and therefore common means of production, as well as the further expropriation of private proprietors, takes a new form.
>
> "That which is now to be expropriated is no longer the laborer working for himself, but the capitalist exploiting many laborers. The expropriation is accomplished by the immanent laws of capitalistic production itself, by the centralization of capital. One capitalist always kills many. Hand in hand with this centralization ... develop on an ever-extending scale the cooperative form of the labor process, the conscious technical application of science, the methodological cultivation of the soil, the transformation of the instruments of labor into instruments only usable in common, the economizing of all means of production by their use by combined, socialized labor, the entanglement of all peoples in the net of the world market, and with this the international character of the capitalist regime.
>
> "Along with the constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working class, a class always increasing in numbers and disciplined, united, organized by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with and under it. Centralization of the means of production and socialization of labor at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."[21]

In brief, the bourgeoisie's development of the productive forces sets in motion its own destruction. Marx's summary elegantly amplifies the contradiction between the social character and private relations of capitalism. It also brings out the centrality of the proletariat for socialism. Not only is the workers' struggle the driving force for capitalist development; not only is their exploitation the potential spark for revolution; but the proletariat's own development and struggle under capitalism organizes it and teaches it the essence of collective and even international production. Capitalism thereby creates the class that becomes the creator of the highest mode of production, communism.

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21. *Capital*, Vol. I, Chapter 32 (p. 763).

"CAPITALIST COMMUNISM"

The accumulation process brings about an extension of the law of value whose absence is sometimes used to argue that Stalinist countries cannot be capitalist. It therefore warrants attention.

For a given capital, its **rate of profit** is the ratio of the surplus value extracted to the capital invested.[22] This definition in value terms underlies but is not the same as the profit rate that capitalists actually receive in monetary terms. The rate of profit received is the basis of a capital's ability to accumulate and survive. In particular, a capitalist with a profit rate significantly below average in his sphere of industry would have difficulty obtaining investments and loans; if the situation persisted he would soon be out of business.

Between different spheres the situation is parallel. If one industry is highly profitable at the moment (because of enlarged demand or increased productivity due to new technology, for example), then it attracts investment and spawns new firms. As production in this industry increases, its market eventually becomes exhausted; then profits decline and investment begins to move elsewhere. Hence there is a tendency for rates of profit received to equalize at the average rate of profit. It depends on the fact that capitalists are interested in the expansion of their capital, not in the particular spheres in which they have momentarily invested.

This equalization tendency was used by Marx to explain an apparent problem in his theory of value. The replacement of living by dead labor in accumulation is an uneven process: some firms advance more rapidly than others. Within the *same* sphere of industry, productivity may vary among different capitals; the value of the commodity produced (its socially necessary labor time) is determined by the dominant level of productivity. But between *different* industries, different levels of productivity affect not the values of commodities but rather their prices.

Capitals in different industries (even if equally up-to-date) will normally differ in the proportion of machinery to labor employed. In value terms, Marx called the ratio of constant to variable capital the **organic composition** of capital. While the organic composition tends to vary between spheres, the **rate of exploitation** (or rate of surplus value), which measures surplus value against the variable capital that produces it, tends to be roughly equal.

Now comes the difficulty. Since only living labor produces surplus value, a capital with a high organic composition uses relatively little living labor and therefore produces a below-average amount of surplus value. Therefore its rate of profit (in Marx's sense) would also be below average. If the profit a capitalist received were the same as the profit he extracted, the most advanced firms would receive the lowest profit rates, and the system would be unstable.

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22. This basic definition is often misunderstood. Mandel says that "The average rate of profit Marxist economic theory is concerned with is the rate of profit on the *flow* of current production ... the fraction of the total capital stock actually used up in annual output and not the rate of profit on the *stock* of capital invested." (*The Inconsistencies of State Capitalism*, International Marxist Group pamphlet, 1969.) Sweezy (*The Theory of Capitalist Development*, p. 67) says likewise. However, not only do capitalists calculate their profit rate on stocks, not flows, but Marx's own procedures show that he agrees with the capitalists. See his profit rate charts in *Capital*, Vol. III, Chapter 9 (pp. 156-7).

The market for capital ensures that capitalists do not receive profit simply according to the surplus value produced by their own workers. On the contrary, the tendency for profit rates to equalize makes the bourgeoisie as a whole — in effect, as a single total capital — share the total surplus value in proportion to the value of each individual's invested capital, variable and constant together. Marx ironically labelled this tendency "capitalist communism"[23]. It is a further illustration that the bosses as a whole exploit the workers as a whole, not just their own employees.

The result of the equalization of profit rates is that capitals with high organic compositions (and therefore low rates of profit in terms of value produced) appropriate more surplus value than their workers create, in order to obtain ("realize") the average rate of profit. Reciprocally, other capitals with lower organic compositions receive less surplus value than their workers produce, but they still obtain an average rate of profit. Marx called the resulting revised exchange value of each commodity its **price of production**; it is calculated as the cost of production (the paid portion of variable capital plus the constant capital it embodies) plus a proportionate share of surplus value. A commodity produced with a higher than average organic composition of capital has a price of production higher than its actual exchange value.

The dividing and sharing of surplus value take place through the constant daily haggling over markets, prices and credit. It is clearly a long-term process: capitalists cannot shift their investments immediately. Those who try to move their capital face serious obstacles: capital is tied up in buildings, materials and instruments, etc. And as the relative size of fixed capital tends to increase, the process of equalization becomes even slower. Marx comments, "Under capitalist production, the general law acts as the prevailing tendency only in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations."[24]

One consequence of this "equality" among capitalists is *un*equal exchange between industries and even countries. In trade at prices of production between an advanced producer (with a high organic composition) and a more backward one, there is a transfer of value from the backward to the advanced — since the advanced producer's commodity sells at a price above its value and the backward producer's commodity sells for lower. This is a "lawful" way for economically advanced countries to benefit disproportionately from trade with their colonies and dependencies.

The equalization tendency of individual profit rates based on the market for capital illustrates capitalism's unique combination of rationality and irrationality. On the one hand, it allows the system to expand, since without it a capitalist who tried to advance technologically would only receive the low proportion of surplus value directly produced. On the other hand, it makes exchange value diverge more and more from the value underlying it, so that bourgeois society is less and less able to quantify scientifically its own inner workings. This is one reason why value can only be measured indirectly through the unstable money commodity and cannot be calculated directly in terms of labor time. It also shows more deeply why private (in the sense of

23. For example, *Marx-Engels Correspondence*, April 30, 1868; *Theories of Surplus Value*, Vol. III, p. 83.
24. *Capital*, Vol. III, Chapter 9 (p. 161).

separate) ownership stands in contradiction to social production: privately owned capitals require (and, in tendency, obtain) their "fair share" of the social surplus value, whether or not such a distribution corresponds to the interest of society — even bourgeois society — as a whole.

Some theorists criticize Marx for giving an erroneous solution to the so-called "transformation problem." They hold that Marx's replacement of exchange values by prices of production is based on the assumption that each round of production begins with pure exchange values; therefore he is wrong not to notice that production costs, as much as output, have to be measured according to prices of production.[25] But Marx was perfectly aware of this; he warned of "the possibility of an error if the cost-price of a commodity ... is identified with the value of the means of production consumed by it."[26]

The confusion is partly due to Marx's use of the term "value" to mean exchange value. Exchange value is already an expression of value in monetary form; the price of production is only a modification of exchange value after profit rates have been equalized. The "transformation of values into prices of production" is not a change between categories (value to price) but an adjustment within one category — exchange value. The error Marx cited is avoided if the initial cost-prices ("values") of commodities are understood to be the production prices (modified exchange values) as they stand at the start of the production period. (The same holds for the organic composition of capital.)

The real problem is that Marx's critics interpret him as trying to devise a formula for a rational price system. But as we have seen, the purpose of his elaboration of the law of value was to discover capitalism's long-term laws of motion and demonstrate its impermanence.

Another confusion is that the equalization of profit rates results from a constant "migration" of capital away from spheres of industry with high organic composition of capital to low organic composition spheres. As we will see in Chapter 5, this convinces some that capitalism does not exist in the Eastern bloc. But it is just an extension of the notion that Marx failed to solve the transformation problem.

First of all, the history of capitalist development shows the opposite: capital does move between spheres, but it tends to go to the more advanced — otherwise there would be no technological progress. (The movement of capital between countries in search of higher profits does not contradict this argument. When capital moves to an economically backward country having a high rate of profit because of low wages, this amounts to taking advantage of a higher rate of exploitation — whereas Marx assumed that in a given society the rate of exploitation was uniform. It therefore has the effect of raising the overall rate of profit; it is a separate process from the balancing of the rate of profit between firms.[27])

Secondly, the migration notion assumes that capitalists first appropriate "their own" surplus

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25. Sweezy, *The Theory of Capitalist Development* (1942), p. 115, was one of the first of many to make this argument.
26. *Capital*, Vol. III, Chapter 9 (p. 165). A similar argument is on p. 160.
27. Marx's view that foreign trade is a counteracting tendency to the falling rate of profit (*Capital*, Vol. III, Chapter 14, Part 5) confirms this argument.

value based on a pure value calculation, and only later discover through competition that their share is disproportionate. But modern capitalists have never appropriated profits according to pure value. (Conceivably pre-capitalist commodity producers could be said to exchange according to values — but before labor power was a commodity, abstract labor and therefore value could not be measured.) Once capitalist production has been established, there is no reason for the most profitable firms in any cycle of investment to be those with low organic compositions. Momentary profitability can be due to many factors, even accidental ones.

The migration theory mixes up different levels of analysis. Calculation in terms of values was Marx's first approximation to reality, with capital treated as a unified whole. The second approximation, capitalist communism, shows how profit rates equate at the level of competing capitals. It is the extension of the law of value from commodities to capital: the capitalists get equal returns on their outlay — not of their own labor but of their capital. The price of production of a commodity, the modified reflection of its value, depends not simply on the characteristics of its production in isolation but rather on its production as a product of a certain sphere of capital in relation to every other sphere.

Although capitalist communism seems to deny the law of value for commodities, it is a further "violation" of the law of value on the basis of that law itself. As Marx noted, "how little the determination of value 'directly' counts for in bourgeois society" — its effects are indirect and unconscious.[28]

The rate of profit produces an illusion: the productive capacity of living labor appears instead to be the productive capacity of capital; surplus value created in production appears instead to be profit generated on the market. Bourgeois and middle-class theorists do not invent their illusions out of nowhere; they merely invert form and content, presenting as the product of science what appears on the surface of capitalist relations and in the consciousness of the capitalists.

Marx criticized capitalists as well as the "bourgeois theorists, the political economists," for allowing the formation of the general rate of profit to obscure the origin of surplus value in the exploitation of labor. "This confusion of the theorists best illustrates the utter incapacity of the practical capitalist, blinded by competition as he is, and incapable of penetrating its phenomena, to recognize the inner essence and inner structure of this process behind its outer appearance."[29] Little needs to be added today except that the "political economists" now call themselves Marxists.

THE QUESTION OF COMPETITION

The most common misrepresentation of the law of value concerns the drive behind capitalist accumulation. Middle-class theorists stress the desires of individual capitalists and their competition in the market, rather than the interest of the bourgeoisie as a whole to resist the class struggle of the workers. The position is most convenient for those who deny the existence of capitalism in the USSR, where market competition between enterprises is limited.

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28. *Marx-Engels Correspondence*, January 8, 1868.
29. *Capital*, Vol. III, Chapter 9 (p. 168).

For example, Mandel writes: “It is competition that determines the whole dynamic, all the laws of development, of capitalism.”[30] More explicitly:

> “What causes capitalist society to move? *Competition*. Without competition there is no capitalist society. A society where competition is radically or completely eliminated would no longer be capitalist to the extent that there would no longer be a major economic motive for accumulating capital and consequently for carrying out nine-tenths of the economic operations which capitalists execute.”[31]

The notion is so pervasive that Tony Cliff, who calls the Stalinist system capitalist, argues similarly:

> “While in the traditionally capitalist countries competition between different factory owners causes them to accumulate and increase the organic composition of capital, in Russia this factor does not exist at all as the factories are owned by one authority.”[32]

Likewise, Baran and Sweezy, who hold that Marx’s attitude toward competition is out of date, use the standard assumption about competition to discredit the relevance of Marx’s whole analysis of capitalism:

> “The stagnation of Marxian social science, its lagging vitality and fruitfulness, cannot be explained by any simple hypothesis. ... But there is one important factor ... the Marxian analysis of capitalism still rests in the final analysis on the assumption of a competitive economy.”[33]

Some even think that competition produces the law of value itself:

> “This competition between individual capitals generates the law of labor value and constitutes the driving force for the historic process of capital accumulation.”[34]

Thus the dominant opinion among a wide variety of Marxists is that competition is the starting point for the analysis of capitalism. Such theorists often turn for textual support to Marx’s *Grundrisse*, an important work containing his private notes written in preparation for *Capital*. Several of its formulations are mistakenly seized upon as authorization for the line that competition is fundamental. Here is a common citation:

> “In competition this inner tendency of capital [the drive to expand beyond all bounds] appears as a compulsion exercised over it by alien capital, which drives it forward beyond the correct proportion with a constant March, March! ... Conceptually, competition is nothing other than the inner nature of capital, its essential character, appearing in and realized as the reciprocal interaction of many capitals with one another, the inner tendency as external necessity. Capital exists

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30. Mandel, *Marxist Economic Theory* (1962), Vol.1, Chapter 11, p. 363.
31. Mandel, *An Introduction to Marxist Economic Theory* (1967), p. 38.
32. Cliff, *Russia: A Marxist Analysis*, p. 156; *State Capitalism in Russia*, p. 216.
33. Paul Baran and Paul Sweezy, *Monopoly Capital* (1966), pp.3-4.
34. Joseph Seymour, *Why the USSR Is Not Capitalist*, p. 71. A similar view is given by Cliff’s associate Chris Harman: “What makes man-produced objects — and above all labor power — into a commodity is precisely competition between producing units ...” (*International Socialism* No. 41, 1969-70.)

and can only exist as many capitals, and its self-determination therefore appears as their reciprocal interaction with one another."[35]

It is easy to read "competition is nothing other than the inner nature of capital" as an assertion by Marx himself that competition is the essence of capitalism. But the passage doesn't say that; it says that competition is the *appearance* of the inner nature of capital. What this inner nature is we have already seen: the drive to accumulate, the struggle between capital and labor, at bottom the exploitation of proletarians through the wage system. The passage illustrates again the distinction between appearance and essence. In everyday language the term is easy to overlook, but when Marx wrote "appear" three times in a few lines he meant it. Reading the passage over as a picture of the surface appearance of capitalism reveals clearly what he had in mind, if we understand that for Marx "appearance" is not a mirage but a subordinate aspect of reality.

As for the "capital exists and can only exist as many capitals," Marx meant that capital is based on value, which presupposes commodities produced for exchange. Hence one capital can exist only in relation to others. Leftists typically read this as meaning that state capitalism is theoretically impossible. For example:

> "Capital is a concept whose development and functioning are governed by certain laws, i.e., it has a logic. We will argue, along with Marx, that 'state capitalism' ... is incompatible with Marx's analysis of capitalism. The pivotal point ... is comprehending why 1) Capital can only exist as many capitals, and, 2) Competition is the 'inner nature of capital.' These two closely related characteristics obviously exclude the possibility of one state-capital."[36]

But Marx never argued that state capitalism is impossible (we will see in the next chapter that he and Engels believed quite the opposite) — only that separate state-owned capitals must produce for, exchange with and confront one another. Indeed, in its ordinary activity capital needs to take the form of "many capitals," with competition between them, precisely in order to get rid of its inefficient sectors in times of crisis. Monopoly and statified capitals face the same need, but since they interfere with the "automatic" operation of capitalism's laws they have a harder time disposing of backward sectors. The current efforts to "reform" Stalinist economies by giving competition freer rein show once again that competition is a necessary but subordinate category.

A second passage in the *Grundrisse* is even sharper:

> "Competition executes the inner laws of capital; makes them into compulsory laws toward the individual capital, but it does not invent them. It realizes them. To try to explain them simply as results of competition therefore means to concede that one does not understand them."[37]

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35. Marx, *Grundrisse* (1973), pp. 414-15.
36. Goldfield and Rothenberg, *The Myth of Capitalism Reborn*, p. 95.
37. *Grundrisse*, p. 752. Marx leads up to this passage with: "A[dam] Smith explained the fall of the rate of profit, as capital grows, by the competition among capitals. ... A. Smith's phrase is correct to the extent that only in competition — the action of capital upon capital — are the inherent laws of capital, its tendencies, [first] realized. But it is false in the sense in which he understands it, as if competition imposed laws on capital from the outside, laws not its own." (pp. 751-2.) The word "first" here is omitted from the published English translation.

Marx differentiated between the drive to accumulate, which he termed an "immanent law of capitalist production" or the "inner nature of capital" — and its surface manifestation in the form of competition between capitals. The manifestation is perfectly real: individual capitalists, especially smaller ones, feel the pressure to modernize and accumulate coming from competition, for their rivals are constantly threatening to undercut them by producing cheaper commodities. Capitalist A does not say to himself, "Now that I know how the system works, I will invest in new technology to accumulate capital and deepen the exploitation of the working class so that capitalism can survive." No, he thinks instead, "Capitalist B is getting new machines to drive me out of business, so I too had better lower my labor costs in the same way."

Competition is precisely the operation of surface pressure to enforce the inner laws on the capitalists: it is capitalism's value-policing agent. But it is not the fundamental drive for accumulation. If it were, it would not tend to heat up during the phase of the business cycle when the pace of accumulation declines and recede when accumulation accelerates (see the section on crises below). As Marx noted:

> "It is easy to develop the introduction of machinery out of competition and out of the law of the reduction of production costs which is triggered by competition. We are concerned here with developing it out of the relation of capital to living labor, without reference to other capitals."[38]

Yet another passage from the *Grundrisse* has been cited to argue that the USSR cannot be capitalist without competition: "production founded on capital ... posits itself in the forms adequate to it only insofar as and to the extent that free competition develops."[39] This "quotation" deceptively omits the crucial words "for the first time" in the middle of the phrase, a clue to the fact that for Marx "free competition" is just one stage in the history of capitalism, an idea to be developed fully in the next chapter.

COMPETITION AND VALUE

Let us look at the standard error on competition from a different perspective. The underlying laws of capital (value, accumulation) operate at the most abstract level of "capital in general," where the struggle between capital and labor is considered in abstraction from conflicts within the bourgeoisie. On the other hand, the effects of competition operate at the level of "many capitals," where fundamental laws are imposed upon the representatives of capital.[40] Marx used the method of successive approximation to social reality in order to strip away the different layers of appearance and thereby lay bare the inner relations of the system. The misrepresentation of competition amounts to mixing up these two levels, in effect omitting capital in general in favor of the relations between individual capitals. This can be seen in a particularly bald formulation by a co-thinker of Tony Cliff's:

> "Marx distinguishes between 'capital in general' and 'many capitals.' The former is the exploitative relation between labor and capital, the latter the competitive interaction of individual capitals. The theory of value is especially

38. *Grundrisse*, pp. 776-7.
39. *Grundrisse*, p. 650, cited in the incomplete form presented by both the anti-Stalinist Ticktin (*Critique* No. 16, p. 27) and the Maoists Corrigan, Ramsay and Sayer (p. 151).
40. See Roman Rosdolsky, *The Making of Marx's "Capital"*, pp. 41-53.

> concerned with relations between 'many capitals,' since it is competition which compels firms to sell commodities at the socially necessary labor time required to produce them."[41]

If this were true it would be hard to see how Marx was able to analyze value so thoroughly in Volume 1 of *Capital*, which stays at the level of capital in general and barely mentions competition. Indeed, answered the Cliffites in advance:

> "Competition merely *expresses* as real, posits as an external necessity, that which lies within the nature of capital; competition is nothing more than the way in which the many capitals force the inherent determinants of capital upon one another and upon themselves. Hence not a single category of the bourgeois economy, not even the most basic, e.g., the determination of value, becomes real through free competition alone ..."[42]

Cliff's conception of competition as the essence of capitalism is fundamentally the same as that of the non-capitalism theorists of the USSR (Mandel, Sweezy, Shachtman, et al). As we noted in the introduction, he holds that since wage labor in the USSR is not a commodity, the capitalist laws of motion operate only because they are imposed from outside by military competition. But he goes further: in Soviet society, he claims, the accumulation of *value* is not the goal of production; on the contrary, "Russia's competition with the rest of the world is expressed by the elevation of use values into an end ...".[43]

Of course, each capitalist firm and state requires specific use values, but Cliff's reasoning elevates this elementary fact into a principle that effectively throws out the Marxist analysis of capitalism. Moreover, he applies this logic not just to the USSR but to capitalism in general:

> "Competition between the capitalist powers has reached the stage where the international division of labor is disrupted and competition through buying and selling is replaced by direct military competition. Use values have become the aim of capitalist production."

It would seem that for Cliff competition is so powerful that it has altered the drive to expand value as the motive force of capitalist production. Not only is Cliff's USSR really a third social system, different in essence from capitalism; he also says in effect that modern capitalism as a whole is also not really capitalist. This goes to show that theorists who deny that Stalinist society is capitalist have no monopoly on turning Marx inside out and removing the capital/labor relation from its central position. State capitalists do it too, under the common assumption of middle-class Marxism that the law of value derives from exchange, not production.

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41. Alex Callinicos, *Socialist Worker Review*, July/August 1985.
42. *Grundrisse*, p. 651.
43. Cliff, *Russia, A Marxist Analysis*, p. 161; *State Capitalism in Russia*, pp. 223-4.

3. CAPITALISM'S CRISES

Marx was one of the first to observe that the tendency toward cyclical crises was an inherent, lawful characteristic of capitalism. But his theory of crises has long been one of the most disputed aspects of his work. One reason is that it has direct political implications: each explanation for crises implies a solution for avoiding them, and the political programs of the various Marxist tendencies inevitably color their theoretical analyses. Reformist and revolutionary interpreters of Marxism have made crisis theory into a major battlefield.

Another reason for controversy is that Marx never got to treat the subject with the detail and coherence he planned. Comments are scattered about his writings and mixed in with other topics, and short-term crises and long-term effects are not always distinguished. We begin with the short-term crises; our interpretation is designed to clarify their role in carrying out Marx's long-term periodization of capitalist development — the subject of the next chapter.

THE CRISIS CYCLE

Marx linked crises to the life cycle of fixed capital:

> "As the magnitude of the value and the durability of the applied fixed capital develop with the development of the capitalist mode of production, the lifetime of industry and of industrial capital lengthens in each particular field of investment to a period of many years, say of ten years on the average. Whereas the development of fixed capital extends the length of this life on the one hand, it is shortened on the other by the continuous revolution in the means of production, which likewise incessantly gains momentum with the development of the capitalist mode of production. This involves a change in the means of production and the necessity of their constant replacement, on account of moral depreciation, long before they expire physically. ...
>
> "The cycle of interconnected turnovers embracing a number of years in which capital is held fast by its fixed constituent part, furnishes *a material basis for the periodic crises*. During this cycle business undergoes successive periods of depression, medium activity, precipitancy, crisis. True, periods in which capital is invested differ greatly and far from coincide in time. But a crisis always forms the starting point of large new investments — therefore, from the point of view of society as a whole, more or less, a new material basis for the next turnover cycle."[44]

Let us take a closer look at the different phases of the industrial cycle cited by Marx.

In the **recovery** (or "medium activity") phase after a crisis, labor is widely available and relatively cheap; most spheres of production expand, hiring more workers. Accumulation takes place in several ways: the concentration of capital in existing capitals, the formation of new capitals and the subdivision of old capitals to take advantage of profitable conditions. In particular, capitalists invest in the production of new fixed capital, which not only takes time to

44. *Capital*, Vol. II, Chapter 9 (pp. 185-6), emphasis added.

be produced but also has the property that its full value is transferred to other commodities only over the period of its working life and therefore is not immediately realized on the market. The recovery phase is a period of increasing production by an increasing number of independent units and of relatively low competition for markets, because demand by workers and capitalists initially runs ahead of production.

Since fixed capital eventually enters into production and the availability of workers is limited, expansion reaches a point where labor begins to run short. This is the expansion or **boom** (Marx's "precipitancy") phase, in which conditions are most favorable to the workers; they are able to increase wages by taking advantage of the competition among capitalists for labor. This creates a short-term reduction in the surplus value extracted per worker, hence a fall in the rate of profit.

The unplanned nature of production, combined with the capitalist drive to accumulate, means that supply soon outpaces demand. As the boom nears its peak, the products of the new fixed capital reach the market. Because of the multiplicity of producers in every sphere, capitalists are compelled to compete for buyers as well as for workers. These conditions bring about overproduction, in producers' goods especially. The crisis is triggered when a sizeable portion of the value produced cannot be realized, that is, sold to buyers needing the given use values and able to pay the exchange value of the commodities.

In the **crisis** phase, increasingly many capitals are forced to cut production and even to halt it entirely. Production drops as the rate of profit heads downward. Overproduction in consumption goods can turn into shortage as industries manufacturing supplies shut down. The army of unemployed workers grows, and this relieves the pressure for high wages. Even costs of capital goods go down.

When the rate of profit sinks below average, the cycle moves into its **slump** phase; unemployment is rampant and many capitals are wiped out. But then the depressed conditions begin to reverse the situation. The rate of profit of surviving capitalists turns up, since both labor and production goods have become cheaper. This is the phase where the centralization of capital flourishes, for the surviving capitalists can buy out bankrupt firms at prices below their usual value. And so, with labor weakened and capital further centralized, the cycle begins anew.

These systemic crises provide a catharsis for the capitalist economy, enabling the system to purge itself of obstructions like backward enterprises and powerful sectors of the work force. The purge comes at the cost of social instability, and this is why capitalism developed techniques for dampening crises. These techniques, however, also weaken the system in that obstructions now are not so easily removed. We will see the results in our discussions of the post-World War II world in later chapters.

The theory outlined here is an **overproduction theory** of crises (as opposed to underconsumptionism described below). Crises result from the fact that each branch, and indeed each separate capital, must expand independently, whatever the needs or purchasing power of society as a whole.

The description just given of the crisis cycle is only a general outline of the forces that come into play. No actual crisis follows the model exactly. In fact, the immediate causes that precipitate particular crises are usually obstructions and imbalances in the monetary system. It was capitalism's money and credit system that displaced direct barter as the major mode of exchange and created the possibility of selling commodities without buying others (or vice versa); that is how goods can be produced that don't find a market. The vagaries of money make each crisis appear different and disguise the underlying patterns. Moreover, as statification and monopoly play increasingly powerful roles, the cycles became increasingly warped. The extreme distortion, as we will show in a later chapter, occurs in the Stalinist system.

Although overproduction under capitalism is the source of crises, a rationally based socialist society would need a different "overproduction" — of use values, not value — for its own purposes. Since the amount of the various kinds of fixed equipment that have to be replaced in any given year cannot be perfectly predicted and will vary, an oversupply has to be prepared for insurance. As Marx put it, the problem "can be remedied only by a continuous relative overproduction. ... This sort of overproduction is tantamount to control by society over the material means of its own reproduction. But within capitalist society it is an element of anarchy."[45] We will see in Chapter 5 that Stalinist overproduction is a form of capitalist anarchy rather than a reflection of social control over economic forces.

UNDERCONSUMPTIONISM

A popular "Marxist" theory of crises is **underconsumptionism**: the idea that capitalism tends to produce insufficient demand for consumption goods in particular. Its basic version argues that crises occur because of the excessive exploitation of the workers. Since workers are paid for only part of the value they produce, they cannot possibly buy back the whole product of their labor. Moreover, the capitalists who appropriate the "excess" surplus value are too few to consume the remainder. Hence many commodities cannot find buyers, and crisis ensues.

Underconsumptionism in this form is a traditional theory of reformist social democrats and labor leaders; they deduce that paying workers higher wages is the way to prevent crises. However, the fact that crises break out at the point in the cycle when the workers have their highest wages, as Marx noted, makes the argument for higher wages to avoid crises unconvincing — along with the theory of underconsumption as an explanation.[46]

Marx also responded that the masses' underconsumption — the fact that they cannot afford the full range of commodities needed for a comfortable living standard — is a constant of life under capitalism, through both boom and bust. (Indeed, it was constant under all previous class societies as well.) If underconsumption were the source of crises they would be permanent, not cyclical.

Certain passages in Marx's work are often taken to justify the claim that he was an underconsumptionist. For example:

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45. *Capital*, Vol. II, Chapter 20, Part 11 (p. 469).
46. *Capital*, Vol. II, Chapter 20, Part 4 (pp. 410-11).

> "The conditions of direct exploitation and those of the realization of surplus value are not identical. They diverge not only in place and time but also logically. The first are limited only by the productive power of society, the latter by the proportional relations of the various branches of production and the consumer power of society. But this last-named is not determined either by the absolute productive power, or by the absolute consumer power, but by the consumer power based on antagonistic conditions of distribution, which reduce the consumption of the bulk of society to a minimum varying within more or less narrow limits. It is furthermore restricted by the tendency to accumulate, the drive to expand capital and produce surplus value on an extended scale."[47]

There is no hint here that capitalism could avoid crises by increasing the consumption of the mass of population. Of course, restricted consumer power is an essential basis of crises: they occur because the mass of wealth is in the hands of capitalists, who can restrict its use when profits are low. Since capitalist production is driven to increase absolutely, which means that resources are constantly drawn away from consumption and toward accumulation, the consumption of society is *necessarily* limited. This would be true even if consumption were much greater than in Marx's time, as it is in the leading capitalist powers today. So even this allegedly underconsumptionist passage is better interpreted in the light of the overproduction theory we outlined: production tends to increase in unplanned fashion and thereby beyond the social demand, no matter how great.

The main point overlooked by the underconsumptionists is that even if capitalists made no profit at all, workers would not buy back the entire product. A portion of the value produced comes from constant capital; and that portion, along with much of the surplus, is repurchased by other capitalists for use in the next round of production. Moreover, it is not even true that all value *eventually* ends up embodied in consumption goods meant for purchase by the working class; a major element of constant capital always is reproduced as constant capital. The error here is that all production is "meant" for eventual consumption. It implicitly accepts the idea that the aim of capitalist production is use values rather than value, and therefore that the proletariat is a deprived consuming class whose goals are achievable within the system.

The implication of underconsumptionism, plainly apparent when expressed by reformists, is the idea that capitalism can be made rational — that is, it can save itself from deadly crises by learning to produce for human needs rather than for profit. This view has nothing in common with Marx, who held that production for value was the essence of the system — in contradiction to satisfying the use value needs of the masses.

We will see in later chapters that one or another version of underconsumptionism lies just beneath the surface of most Marxist theories of modern capitalism. An influential view is that of Baran and Sweezy, whose ideas swayed the American New Left of the 1960's. They hold that capitalism's problem in modern times is an excess of "surplus" which, unlike Marx's surplus value, has no direct connection to the exploitation of the proletariat. The system cannot absorb the surplus without resort to arms spending and other artificial devices. Moreover, it suffers from

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47. *Capital*, Vol. III, Chapter 15, Part 1 (p. 244).

a “tendency of surplus to rise.” Economic crises are obsolete; instead we face long-term stagnation and social crises (“disorientation, apathy, and often despair”).[48] Sweezy’s criticism of state capitalist theorists who don’t base their analyses of the Soviet Union on capitalism’s laws of motion (see the Introduction) comes with ill grace from one whose analysis of *capitalism* isn’t based on capitalism’s laws of motion.

Baran and Sweezy’s theory of a crisis-free capitalism, like their rejection of surplus value, was a convenient rationalization for political views that reject the proletariat in favor of third-world nationalism. It was also the product of the growing middle class’s illusions in endless prosperity that gave rise to theories of a bought-off and bourgeoisified working class. Written in 1966, the book’s thesis was decisively answered in practice by the French working class uprising of 1968. It is also refuted by the prolonged decline in living standards that has characterized Western capitalism since the late 1960's (see Chapter 6).

The logic of underconsumption theories is very close to Keynesianism, a major force in bourgeois economics during the past half century. It holds that state intervention into the economy can forestall the outbreak of crises by regulating consumer demand, in part by doling out some sops to the working class. This idea conceals the fact that workers’ gains are always achieved through militancy against capital, as in the United States during the 1930's. Keynesianism is a theoretical cover that claims credit for what the masses won for themselves. It also justifies the class-collaborationist programs of social democrats (and many academic Marxists) who argue that their “anti-monopoly” policies are in the interest of all society, not just the workers. Once in office, however, when there is less fat on the economy to offer for sops, social democrats find that “the general interest” requires austerity for the workers so that profits (the real goal of the system and its keepers) can recover.

DISPROPORTIONALITY

In contrast to underconsumptionism, **disproportionality** is the theory that capitalist anarchy leads to the overproduction of some commodities and the underproduction of others, in essentially random fashion. This too is based on correct observations that reflect the atomized character of capitalist ownership. But like underconsumptionism, disproportionality is a *constant* fact of capitalist life that cannot account for *periodic* crises. Marx’s analysis shows that capitalism’s drive to accumulate creates cyclical overproduction in all areas, even assuming disproportions between spheres. In his words:

> “If it is said that there is no general overproduction but simply a disproportion between the various branches of production, this again means nothing more than that, within capitalist production, the proportionality of the particular branches of production presents itself as a process of passing constantly out of and into disproportionality — since the interconnection of production as a whole here forces itself on the agents of production as a blind law, and not as a law which, being grasped and therefore mastered by their combined reason, brings the productive process under their common control.”[49]

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48. Baran and Sweezy, *Monopoly Capital*, pp. 8-10, 281.
49. *Capital*, Vol. III, Chapter 15, Part 3 (p. 365 in the Vintage/Penguin edition).

Before World War I, disproportionality was the chief alternative to underconsumptionism. It was held by theorists who hoped that the development of capitalism would moderate tendencies toward crises. Lenin held an anti-reformist version of the theory, as we will see in the next chapter. Today its implications are clearer: it is favored by Stalinists and social democrats who see the solution to capitalism's crises as state economic intervention, which can supposedly overcome the anarchic disproportions arising from an unplanned market.

A leading classical disproportionalist was the Bolshevik Nikolai Bukharin, who argued that a crisis-free capitalism was possible. "Let us imagine," he wrote, "the *collective-capitalist social order* (state capitalism) in which the capitalist class is united in a unified trust and we are dealing with an organized, though at the same time, from the standpoint of the classes, antagonistic economy." He went on:

> "Is accumulation possible here? Of course. The constant capital grows, because the capitalists' consumption grows. New branches of production, corresponding to new needs, are continually arising. Even though there are certain limits to it, the workers' consumption increases. Notwithstanding this 'underconsumption' of the masses, no crisis can arise since mutual demand of all branches of production, and likewise consumer demand, that of the capitalists as well as of the workers, are given from the start. Instead of an 'anarchy of production' — a plan that is rational from the standpoint of capital."[50]

Bukharin assumed that a "planned" capitalist economy in which relations between classes are hostile can introduce harmonious relations within the ruling class. This is false from a theoretical standpoint: Lenin's analysis of imperialism (Chapter 2) showed that statification and monopoly do not eliminate competition between capitals but ultimately heighten it. It has also been falsified in practice: Stalin's Russia in the 1930's showed that intensified exploitation of the working class could not take place without rivalry and competition within the bureaucracy (Chapter 4). Once again we are dealing with the anti-Marxist idea that capitalism can be made rational.

Bukharin concluded his analysis of state capitalism by claiming that while that system would be free of ordinary crises, it would still decay into stagnation. Looking at the Soviet-type economies today, Bukharin's insight may seem remarkable. But we will show in Chapter 5 that the apparent absence of recurring crises under Stalinism is deceptive, and that there is a far better explanation of its stagnation.

THE FALLING RATE OF PROFIT

Marx's "law of the tendency of the rate of profit to decline" is another reason often given as the basis for capitalism's periodic crises. We will use the abbreviation "FRP" to refer to Marx's falling rate of profit law, both for simplicity and to distinguish it from other factors which cause

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50. Bukharin, *Imperialism and the Accumulation of Capital*, Chapter 3, (1972 edition, p. 226). In this translation the last word, "capital," is italicized and capitalized as if it refers to Marx's book — "rational from the standpoint of *Capital*" — but this seems wrong in the context. Our interpretation agrees with the translation of the passage in Cliff, *Russia: a Marxist Analysis*, p. 169.

the rate of profit to decline.

The rate of profit does of course decline cyclically on the verge of each crisis, as outlined above, because of intensified accumulation and higher wages. Theories that point to such a "profit squeeze" can easily be accommodated within bourgeois ideology, since in effect they condemn the greedy working class as the cause of crises. When raised by leftists, theories of this genre usually imply a "solution" through state planning to compel investment even where less than fully profitable. Such panaceas cannot last long unless the bourgeois state itself is overthrown.

The falling rate of profit law is one of the most controversial subjects in Marxist literature. Marx himself gave it the highest standing:

> "This is in every respect the most important law of political economy, and the most essential for understanding the most difficult relations. It is the most important law from the historical standpoint. It is a law which, despite its simplicity, has never before been grasped and even less, consciously articulated."[51]

On the other hand, leading Marxists like Bukharin and Trotsky seem never to have mentioned the FRP, while Luxemburg referred to it mockingly and Lenin only in passing. We will show that the falling rate of profit tendency has an intimate relation with the crisis cycle — but is not the cause. Its importance is its link to capitalism's epoch of decay.

According to Marx, the FRP derives directly from the growing domination of dead labor (capital) over living — the rising organic composition of capital. The basic argument is simple. On the one hand, only living labor produces surplus value, and the amount of surplus value that can be produced by one worker in a working day is limited by the number of hours in the day. On the other, the value of the means of production that the worker employs can increase without limit. It follows that the surplus value produced decreases as a proportion of the total capital (constant plus variable). That is, the ratio of surplus value (from which profits are derived) to invested capital — the rate of profit — falls.

As an algebraic formula, the rate of profit is expressed as

$$\frac{S}{C + V},$$

where S stands for surplus value, C for constant capital and V for variable capital. The theory is that over time C increases faster than S with respect to V. Therefore the overall ratio decreases.

Before Marx, bourgeois economists had already observed the falling tendency of the rate of profit — it aroused their concern over the future health of capitalism — but they could not explain it. Today almost all economists as well as many professed Marxists dispute the law, arguing that there is neither any justification for it in theory nor, whatever the conditions in the 19th century, any sign of a general decline in capitalist profit rates. To provide a historical demonstration of the FRP would take us too far afield.[52] Here our task is to show how the law

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51. *Grundrisse*, p. 748.
52. For evidence see "The Tendency of the Rate of Profit to Fall in the United States," by Dumenil, Glick and Rangel, *Contemporary Marxism* No. 9 (1984); and our "Karl

works in theory. First, we note that Marx foresaw some of the problems:

> "If we consider the enormous development of the productive forces of social labor in the last 30 years alone as compared with all preceding periods ... in particular the enormous mass of fixed capital, aside from the actual machinery, which goes into the process of social production as a whole, then the difficulty which has hitherto troubled the economist, namely to explain the falling rate of profit, gives place to its opposite, namely to explain why this fall is not greater and more rapid."[53]

There are countertendencies to the FRP, Marx noted, which tend to raise profits. They "cross and annul the effect of the general law, and give it merely the characteristic of a tendency." These include 1) the increasing intensity of exploitation, which increases surplus value; 2) the cheapening of units of constant, and especially of fixed, capital — which lowers the value of invested capital and therefore raises the profit rate as a percentage of it; and 3) foreign trade, which enables capitalists to invest where profits are high because of low-paid workers.

Marx believed that the FRP would normally dominate the counteracting tendencies, because of both empirical evidence and his overall understanding of the impermanence of capitalism. Although he tried to work out a convincing demonstration by means of the laws of motion of the system, the argument as he left it was incomplete. The door remained open for Marxist claims that the FRP is false, as well as for interpretations that make the FRP purely a cyclical phenomenon in which the countertendencies periodically catch up with the main tendency and restore the system's health and profitability (see below). Thus the crises cycles could be eliminated through directive state planning of not only production but long-term investment policy — another reformist myth under capitalism.

One elementary argument against the FRP is that no capitalist would ever invest in new equipment if he expected that doing so would lead to a lower rate of profit. Marx replied that the initial investor in a new machine usually reaps a windfall profit by producing commodities below their average value (and below their operative selling price); only when the new technique is standardized does the higher organic composition bring down the average profit rate. Opponents retort that such reasoning may have worked at one time, but now that capitalists have centuries of experience they could see ahead that new technology leads to lower profit rates; if Marx were right, therefore, no new investment would occur. A Marxist reply at this level requires a concrete analysis.

We begin to fill in the gap in Marx's argument by considering the rate of profit as it varies between capitals and over the crisis cycle.

The fall in the overall profit rate due to the rising organic composition of capital works out differently for different firms. A company using new techniques of production can charge lower prices for its goods and thereby undercut obsolescent rivals. *Its* rate of profit does not fall, but rises — despite its own higher organic composition, since it has engineered a temporary diver-

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Marx and the World Crisis," *Socialist Voice* No. 19 (1983).

53. *Capital*, Vol. III, Chapter 14 (p. 232).

gence between value and price. As for the rivals, in theory their old fixed capital has been devalued (since the *re*production of their use value now requires fewer hours of labor because more modern methods exist); but they are still compelled to calculate their profit rates on what they originally paid for their equipment. Thus the out-of-date capitals have to sell at less than what they anticipated at the time of investment; so they suffer a loss in expected income and therefore profits. *Their* rate of profit falls; the value/price divergence works against them.

The point that the FRP affects different capitals differently is missed, for example, in a British reformist's argument against the revolutionary implications of the FRP:

> "Marx's theory does not apply to the situation in Britain in recent years. Britain today is not the country where the productive forces under capitalism have been pushed to their most advanced limit. ... It is clear, from a casual examination of the statistics, that the 'social productivity of labor' in Britain is much lower than in France, West Germany or the United States. Furthermore, the amount of machinery per worker, measured in either value or volume terms, is much lower in Britain than its more advanced capitalist competitors. The scenario in *Capital* of a fall in the rate of profit coming about at the most advanced stage of capitalist development would apply more to the United States and to continental Western Europe than to Britain; if it applied at all."[54]

That is, the FRP implies that since Britain has a lower organic composition than its rivals, it ought to have a higher rate of profit. Since Britain is obviously not doing well, it follows that the FRP is fallacious. Our answer is that Britain's is not an isolated economy, and precisely the more advanced productive methods used elsewhere drive down the rate of profit of uncompetitive British firms. Contrary to its author's intention, his example in fact provides an illustration of the FRP in operation.

The FRP works out differentially not only between firms (and countries) but also over time. As noted earlier, the rising organic composition tendency is carried out in the boom phase of the business cycle, whereas the main countertendency to the FRP — the cheapening of elements of constant capital — occurs mainly in the depression phase. Ideally the two conflicting tendencies would balance each other. When capitals are wiped out and the surviving capitalists pick up the pieces at bargain rates, this (approximately) re-establishes the real value of the old capital at a reduced level, taking its obsolescence into account; accordingly, the rate of profit that the new owners make on old capital would be back to normal. At the same time, weak capitals whose profit rates had been lowest would no longer be in business; their profit rates would not enter into the average to bring it down. Hence the average rate of profit would come back up.

But all that the restoration of profit rates means is that the rate of profit of the *surviving* capitals is more or less back to where it was. If we were to consider the capital invested at the start of a given cycle, by the end of the cycle some of it would have been destroyed. The rate of profit it receives would be zero; if averaged into the total, this would bring the average down considerably. Hence the FRP is counteracted only by the destruction of a fraction of capital (and

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54. Geoff Hodgson, "On the Political Economy of the Socialist Transformation," *New Left Review*, 1982.

of capitalists). Capitalism, even when progressive, maintains its stability — its efficiency as measured by the average rate of profit — only through a process of fratricide.

Moreover, there are always obstacles to this fratricidal mode of operation, which intervene especially as capital becomes monopolized and statified. At this stage it is harder to wipe out the inefficient firms. When the capitals due for destruction are very large, resolving crises at their expense will hurt the system as a whole, not just the working class and the ousted capitalists. So crises are *not* ideally resolved, and as a consequence, the countertendencies to the FRP (which flourish in the depression phase) are not fully exerted.

Consequently, in the course of a given cycle the FRP will tend to overcome the countertendencies. With the rate of profit tending to fall from cycle to cycle rather than simply within each cycle, the successive crises get worse and worse. This process reaches its apex in the epoch of capitalist decay, as we will see in the next chapter.

Our reasoning shows that the FRP is not a short-term process, despite the fact that the profit-rate fluctuations it causes are carried out by the crisis cycle and run parallel to the fluctuations induced by the labor market. As our citations prove, Marx too regarded it as a long-run, historical phenomenon. Some theorists hold otherwise, but then they cannot explain why there should be an intensification of crises as the system ages.[55] The full interpretation of the FRP depends on an understanding of capitalist decay, and any attempt to restrict this tendency to its role in cyclical crises amounts to rejecting the system's epochal transformation.

THE VALUE DILEMMA

The falling rate of profit tendency is not a technical phenomenon depending solely on the extent of mechanization of the economy. It expresses the contradictory nature of value and of production for value; it is the practical demonstration of capitalism's dilemma of accumulating new capital and devaluing the old. We are now in position to understand an immensely rich passage from Marx:

> "The crises are always but momentary and forcible solutions of the existing contradictions. They are violent eruptions which for a time restore the disturbed equilibrium.
>
> "The contradiction, to put it in a very general way, consists in that the capitalist mode of production involves a tendency toward absolute development of the productive forces, regardless of the value and surplus value it contains, and regardless of the social conditions under which capitalist production takes place; while, on the other hand, its aim is to preserve the value of the existing capital and promote its self-expansion to the highest limit (i.e., to promote an ever more rapid

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55. John Weeks, *Capitalism and Exploitation* (1981), p. 201, and Ben Fine, *Theories of the Capitalist Economy* (1982), p. 118. Their view is related to their idea that the FRP itself (unlike the main counteracting tendencies) "arises in production and can be developed for capital as a whole" (Weeks), i.e., without introducing interaction among different capitals. This is valid for the rising organic composition tendency, but (as our presentation shows) both the FRP and its countertendencies are expressed through the cycles and competitive relations at the "many capitals" level of analysis. Marx's judgment in postponing discussion of the FRP to Volume III of *Capital* was correct.

> growth of this value). ... The methods by which it accomplishes this include the fall of the rate of profit, depreciation of existing capital, and development of the productive forces of labor at the expense of already created productive forces. ...
>
> "The *real barrier* of capitalist production is *capital itself*. It is that capital and its self-expansion appear as the starting and closing point, the motive and the purpose of production; that production is only production for *capital* and not vice versa, the means of production are not mere means for a constant expansion of the living process of the *society* of producers."[56]

Let us illustrate Marx's analysis by means of an imaginary construction. If there were such a thing as a universal capitalist ruling body determining the interests of the system as a whole, it would be torn between the horns of the dilemma implied by Marx. To accumulate intensively by revolutionizing production through new forms of capital means devaluing the old existing capital; but to hold back accumulation means retreating in the battle for power against the working class.

Of course, there can be no universal capitalist authority, so in reality the dilemma is faced only by capitalists controlling narrow sectors of capital. The owner of an individual factory must modernize as rapidly as he can afford, lest his capital be devalued. Monopoly owners may hesitate to modernize too rapidly, lest other sections of their capital be prematurely devalued. As we will see in Chapter 5, the rulers of the Stalinist state have adopted yet another alternative, an extension of the monopoly strategy, which also fails to rescue them from the inherent contradiction.

The law of value expresses the essence of the capitalist dilemma. Value permits a smooth crisis-free economy only under the conjuncture of two conditions: unfettered competition to guarantee that the most efficient production methods triumph, and conscious planning to avoid over-production by independent producers. Each of these conditions is impossible, and the two cannot hold even approximately at the same stage of history. The "invisible hand" of Adam Smith operates only when the system is in its infancy and no firm is big enough to dominate the market. Whereas social planning is conceivable only in an advanced stage, when monopoly and the state dominate. The contradictory logic of capital accumulation shows that the law of value is the embodiment of the system's internal contradictions.

In Marx's description (quoted above) of the ultimate contradiction of capital, it is not the increase of *use values* that is contradictory but the unbounded increase of *value*, which necessarily accompanies the growth of use values under capitalism. Existing values cannot be preserved if new values are produced that render them obsolete. Accumulation of value is therefore counterposed to production of use values essential for the proletariat and future society. Capitalism's increasing consciousness of this contradiction, and the measures it took on the basis of its own laws to forestall the revolutionary maturation of the proletariat, brought an end to its epoch of progressive development.

The fact that the crises and decay of capitalism are inherent in the nature of value refutes all

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56. *Capital*, Vol. III, Chapter 15, Part 2 (pp. 249-50).

attempts to treat value calculation as an expression of rationality. The anti-Marxist theories remain popular as expressions of middle-class aspirations to find (or engineer) stability in a system whose fundamental basis is class conflict.