4. The theory of capitalist development

The theory of surplus value

Although much of *Capital* is concerned with economic analysis, Marx's overriding interest in the work is always in the dynamics of bourgeois *society*: the primary object of *Capital* is to disclose the 'economic law of motion' of this society, through an examination of the dynamics of the productive foundation upon which it rests.[1]

Capitalism, as Marx emphasises on the first page of *Capital*, is a system of *commodity* production. In the capitalist system producers do not simply produce for their own needs, or for the needs of individuals with whom they are in personal contact; capitalism involves a nation-wide, and often an international, exchange-market. Every commodity, Marx states, has a 'two-fold' aspect: its 'use-value', on the one hand, and its 'exchange-value' on the other. Use-value, which 'is realised only in the process of consumption', has reference to the needs which the properties of a commodity as a physical artifact can be employed to cater to.[2] An object can have use-value whether or not it is a commodity; while to be a commodity a product must have use-value, the reverse does not hold. 'Exchange-value' refers to the value a product has when offered in exchange for other products.[3] In contrast to use-value, exchange-value presupposes 'a definite economic relation', and is inseparable from a market on which goods are exchanged; it only has meaning in reference to commodities.

Now any object, whether it is a commodity or not, can only have value in so far as human labour power has been expanded to produce it: this is the core proposition of the labour theory of value which Marx takes over from Adam Smith and Ricardo.[4] It follows from this that both exchange-value and use-value must be directly related to the amount of labour embodied in the production of a commodity. It is clear, Marx says, that exchange-value cannot be

[1] Only the first volume of *Capital* was published in Marx's life-time, but Marx worked on all three volumes simultaneously. Volumes 2 and 3 were edited and published by Engels in 1885 and 1894 respectively. In the preface to the first volume, Marx speaks of a projected fourth volume, to deal with 'the history of theory'. Notes for this work were published by Kautsky between 1905 and 1910, as *Theorien über den Mehrwert*. Sections from this have been translated into English as *Theories of Surplus Value*, ed. Bonner & Burns (London, 1951). Two volumes of a full English translation have appeared (London, vol. 1, 1964; vol. 2, 1969).

[2] *Contribution to the Critique of Political Economy*, p. 20.

[3] Whenever Marx speaks of 'value' without qualification, he means 'exchange-value'.

[4] For an account of the development of the labour theory of value, see Ronald L. Meek: *Studies in the Labour Theory of Value* (London, 1956).

derived from use-value. This can be shown by the example of the exchange-value of two commodities such as corn and iron. A given quantity of corn is worth a specifiable quantity of iron. The fact that we can express the worth of these two products in terms of each other, and in quantified form, shows that we are using some common standard which is applicable to both. This common measure of value has nothing to do with the physical properties of corn or iron, which are incommensurate. Exchange-value must then rest upon some quantifiable characteristic of labour. There are obviously many differences between specific kinds of labour: the actual tasks involved in the work of growing corn are very different from those involved in manufacturing iron. Just as exchange-value abstracts from the specific characteristics of commodities, and treats them in abstract quantitative ratio, in the derivation of exchange-value we have to consider only 'abstract general labour', which can be measured in terms of the amount of time expended by the worker in the production of a commodity.

Abstract labour is the basis of exchange-value, while 'useful labour' is the basis of use-value. The two aspects of commodities are simply an expression of the dual character of labour itself – as labour *power*, the physical expenditure of the energy of the human organism, something common to all forms of productive activity; and as a definite kind of labour, a specific set of operations into which this energy is channelled, something peculiar to the production of particular commodities for specific uses.

> On the one hand all labour is, speaking physiologically, an expenditure of human labour power, and in its character as similar or as abstract human labour it creates the value of commodities. On the other hand, all labour is the expenditure of human labour power in a special form and with a definite aim, and in this, its character of concrete useful labour, it produces use-value.[5]

'Abstract labour' is an historical category, since it is only applicable to commodity production. Its existence is predicated upon what are, for Marx, some of the intrinsic characteristics of capitalism. Capitalism is a far more fluid system than any which preceded it, demanding that the labour force should be highly mobile, and adaptable to different kinds of work; as Marx puts it, '" labour in general ", labour *sans phrase*, the starting-point of modern political economy, becomes realised in practice '.[6]

There is an obvious problem which presents itself if abstract labour is to be measured in terms of units of time as the mode of calculating exchange-value. It would appear to follow from this that an idle worker, who takes a long while to produce a given item, would produce a more valuable commodity than an industrious man completing the same task in a shorter time.[7]

[5] *Cap.* vol. 1, p. 47; *We*, vol. 23, p. 61.
[6] *Contribution to the Critique of Political Economy*, p. 299.
[7] Skilled labour also offers a source of difficulty. Marx holds, however, that all skilled labour can be reduced to time units of unskilled or 'simple' labour. A skill normally represents the results of a certain period of training; to convert skilled labour

Marx stresses, however, that the concept applies not to any particular individual worker, but to the 'socially necessary' labour time. This is the amount of time required for the production of a commodity under the normal conditions of production, and with the 'average degree of skill and intensity' prevalent at a given time in a particular industry. The socially necessary labour time can be fairly readily determined, according to Marx, through empirical study. A sudden technological improvement can reduce the amount of socially necessary labour time required to produce a particular commodity, and will therefore lead to a corresponding diminution in its value.[8]

This whole analysis, including Marx's discussion of surplus value described below, is set out in the first volume of *Capital*.[9] It should be emphasised that Marx's treatment of value and surplus value at this point is deliberately phrased on a highly abstract level. Marx sets out to 'disregard all phenomena that hide the play' of the 'inner mechanism' of capitalism. Failure to appreciate this has given rise to numerous misconceptions, including the one that Marx allows no role at all to demand. For most of his discussion in volume 1 Marx assumes a situation in which supply and demand are in equilibrium. Marx does not ignore the importance of demand; but it follows from the labour theory of value that demand does not determine value, although it can affect prices.[10] For Marx, demand is most significant in relation to the allocation of the labour force to different sectors of the economy. If the demand for a certain commodity becomes particularly high, then producers of other goods will be stimulated to move into the production of that commodity. The increase in price following the heightened demand will then become reduced in the direction of its value.[11] But demand is not the independent variable some economists make of it: 'supply and demand presuppose the existence of different classes and sections of classes which divide the total revenue of a society and consume it among themselves as revenue, and, therefore, make up the demand created by revenue.'[12]

It follows from the analysis of exchange-value discussed above that products exchange at their values: that is, according to the amount of socially

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into simple labour, it is necessary to assess the amount of labour (expended on his own part and by those who train him) which goes into the training procedure. But, in Marx's view, capitalism eventually tends to do away with skilled labour in any case, through progressive mechanisation. cf. Paul M. Sweezy: *The Theory of Capitalist Development* (New York, 1954), pp. 42–4.

[8] As an example of the impact of technological change in this direction, Marx cites the case of the English clothing industry. Here the introduction of power looms reduced by something like fifty per cent the labour time necessary to weave yarn into cloth. Of course a hand weaver still needed the same amount of time as before, 'but the product of one hour of his individual labour represented after the change only one-half an hour's social labour, and consequently fell to one-half its former value'. *Cap*, vol. 1, p. 39; *We*, vol. 23, p. 53.

[9] *Cap*, vol. 1, pp. 508ff.

[10] *SW*, vol. 1, pp. 84ff.

[11] *Cap*, vol. 3, pp. 181–95. cf. Meek, p. 178.

[12] *Cap*, vol. 3, p. 191.

necessary labour time embodied in them.[13] Marx rejects the notion that capitalists derive their profits from any sort of dishonesty or deliberate underhand dealing. Although in actual buying or selling transactions a particular capitalist might make money by taking advantage of the vagaries of the market, such as a sudden increase in demand for his product, the existence of profit in the economy as a whole cannot be explained in this way. On the average, Marx holds, the capitalist buys labour, and sells commodities, at their real value. As he puts it, the capitalist 'must buy his commodities at their value, must sell them at their value, and yet at the end of the process must withdraw more value from circulation than he threw into it at starting'.[14]

This apparent paradox is resolved by Marx with reference to that historical condition which is the necessary basis of capitalism, the fact that workers are 'free' to sell their labour on the open market. What this signifies is that labour power is itself a commodity, which is bought and sold on the market. Thus its value is determined like that of any other commodity, by the labour time socially necessary for its production. Human labour power involves the expenditure of physical energy, which must be replenished. To renew the energy expended in labour, the worker must be provided with the requirements of his existence as a functioning organism – food, clothing, and shelter for himself and his family. The labour time socially necessary to produce the necessities of life of the worker is the value of the worker's labour power. The latter's value is, therefore, reducible to a specifiable quantity of commodities: those which the worker requires to be able to subsist and reproduce. 'The worker exchanges with capital his labour itself . . . he *alienates* it. The price he receives is the value of this alienation.'[15]

The conditions of modern manufacturing and industrial production allow the worker to produce considerably more, in an average working day, than is necessary to cover the cost of his subsistence. Only a proportion of the working day, that is, needs to be expended to produce the equivalent of the worker's own value. Whatever the worker produces over and above this is surplus value. If, say, the length of the working day is ten hours, and if the worker produces the equivalent of his own value in half that time, then the remaining five hours' work is surplus production, which may be appropriated by the capitalist. Marx calls the ratio between necessary and surplus labour the 'rate of surplus value' or the 'rate of exploitation'. The rate of surplus value, as with all of Marx's concepts, has a social rather than a biological reference. The labour time necessary to 'produce labour power' cannot be defined in purely physical terms, but has to be ascertained by reference to culturally expected standards of living in a society. 'Climatic and physical conditions' have an

[13] This statement is only true given the simplified model Marx employs in volume 1 of *Capital*; in the real world there is often considerable divergence between values and prices.

[14] *Cap*, vol. 1, p. 166.

[15] *Gru*, pp. 270–1.

influence, but only in conjunction with ' the conditions under which, and consequently on the habits and degree of comfort in which, the class of free labourers has been formed '.[16]

Surplus value is the source of profit. Profit is, so to speak, the visible ' surface ' manifestation of surplus value; it is ' a converted form of surplus value, a form in which its origin and the secret of its existence are observed and extinguished '.[17] The analysis which Marx offers in the first volume of *Capital* sets out to remove this disguise, and does not discuss the actual relationship between surplus value and profit, which in the empirical world is a complicated one. The amount the capitalist has to spend on hiring labour is only one part of the capital outlay he has to make in the productive process. The other part consists in the machinery, raw materials, maintenance of factory fittings, etc., necessary for production. That segment of capital laid out on such matters is ' constant capital ', while that spent on wages is ' variable capital '. Only variable capital creates value; constant capital ' does not, in the process of production, undergo any quantitative alteration of value '.[18] In contrast to the rate of surplus value, which is the ratio of surplus value to variable capital (s/v), the rate of *profit* can only be calculated with reference to both variable and constant capital. The ratio of constant to variable capital constitutes the ' organic composition ' of capital; since the rate of profit depends upon the organic composition of capital, it is lower than the rate of surplus value. The rate of profit is given by the formula $p=s/c+v$: the lower the ratio of expenditure on constant capital to that on variable capital, the higher the rate of profit.[19]

In the third volume of *Capital*, Marx relates the simplified theory of surplus value presented in volume 1 to actual prices. It is clear that, in the real world, the organic composition of capital varies widely from industry to industry. In some sectors of production, the amount of constant capital involved is far higher in relation to variable capital than in other sectors: for example, annual capital outlay on machinery and plant equipment in the iron and steel industry is much greater than it is in the clothing industry. Following the simplified model advanced in the first volume of *Capital*, this would lead to widely divergent rates of surplus value, and if profit were directly correlative to surplus value, would lead to marked variations in profits between different sectors of the economy. But such a state of affairs, except on a short-term basis, would be incompatible with the organisation of the capitalist economy in which capital always tends to flow into those channels which offer the highest levels of profit.

[16] *Cap*, vol. 1, p. 171.
[17] *Cap*, vol. 3, p. 47.
[18] *Cap*, vol. 1, p. 209.
[19] Marx assumes here that no rent is being paid by the capitalist to a landlord. As Marx puts it: ' landed property is taken as $=0$.' Marx moves on to the problem of ground-rent in the third volume of *Capital*.