

A Marxist Guide to Understanding Economics

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Economics is a subject which is regarded by most ordinary people as mysterious and totally defying any rational understanding. This is true to an even greater extent today than 50 years ago, as we have increasingly seemed to move beyond a capitalist economy which deals with the production of real tangible things, to the dizzying world of currency hedge funds, financial futures trading and the explosion of the service sector.

No wonder then that many activists who are committed to trying to bring about radical social change shy away from the study of capitalist economics.

However this is deeply problematic because at the same time the one thinker who developed a thorough-going radical critique of capitalism - Karl Marx - is very little read among people on the left (even those calling themselves socialist revolutionaries).

In addition, there exists a widespread misconception that the writings of Karl Marx are so arcane, so mysterious, as to be only comprehensible to a select and gifted few. This is unfortunate because despite the perhaps slightly inaccessible style in which Marx wrote, the basic fundamentals of his philosophy are in reality breathtakingly simple.

Marx's Method

In contrast to the bourgeois economists of today who concern themselves only with the surface phenomena of the capitalism (inflation, prices, interest rates etc) Karl Marx actually sought to explain the inner workings and historic development of the system.

Marx started from the proposition that economics is first and foremost about the way in which society organises to fulfil its immediate material wants. He identified himself as a materialist, in opposition to the idealist thinkers who thought that history was determined by the will of a particular deity, the ruling sovereign or some abstract idea called "human nature".

Marx describes how whereas in primitive tribal societies it was possible for individuals to produce the means of their own subsistence through hunting and gathering etc, with the technological advances brought on in agriculture and metallurgy there was a greater division of labour with people fulfilling more and more specialised roles. In order to satisfy their basic material needs people now had to produce not just for their own individual use but to exchange in return for other goods.

Labour Theory of Value

But how were people to determine the value ratio at which different products would exchange? Marx explained that this was done on the basis of their one common denominator - the amount of labour time that went into producing a particular article. This exchange value does not necessarily correlate to the original use value (i.e. the utility it possesses for human beings) - for instance diamonds are of very little practical use, but still realise a high exchange value since their extraction is a time-consuming and labour intensive business. Likewise, many things which have a high use value to human beings (such as air) do not command any exchange value.

Exchange value is determined not at an individual level but in terms of *socially necessary labour time*; that is the average time across the whole of that economic sector and factoring in the existing level of technology and specialisation. Thus just because one worker takes 30 minutes to produce a watch which normally takes 10 minutes to manufacture does not mean that that watch will be able to realise 3 times the exchange value. Rather the watch-maker would have to work three times as long to produce enough goods to exchange for the same amount of other products.

It is important to stress here that when Marx talked about the value of goods being determined by labour time this was not the same thing as price, since prices are in a constant state of disequilibrium and fluctuate constantly above or below actual value.

Surplus Value

Now as we know very early on in human history our societies evolved from being mere aggregations of free independent producers to class societies in which existed on the one hand a large majority of un-free or semi-free

labour and on the other a small elite which produced nothing at all but reserved for themselves the task of ruling over the others.

But how could they support themselves without labour? The answer of course was that they would forcibly expropriate the *surplus labour* of others. That is to say, all of the value created over and above that needed to meet the subsistence needs of the slave or peasant farmer would accrue to the slave-owner or feudal lord. This exploitation was transparent and obvious, which is why it could only be justified by recourse to some sort of claim of divine providence or simple brute force.

The genius of capitalism was that in place of this overt exploitation it was able to introduce a far subtler, more form. In an apparently free and equal exchange the capitalist who owned the means of production would advance to the worker wages in return for gaining control over the workers' labour power. Since all commodities exchange at a value which corresponds to the socially necessary labour time necessary to reproduce them and here the commodity being exchanged is none other than labour itself. Therefore the wages paid will go to meet the upkeep of the individual worker, as well as his family which ensures the continued survival of the labour supply.

However unlike all other commodities (such as raw materials, plant machinery etc) labour is unique in that it is capable not only of imparting a portion of its own cost of reproduction into a finished product but of also creating new value. Over time tools or machinery will use up their accumulated reproductive value in the production process and have to be replaced, but not so labour.

Thus a worker may work 8 hours a day but in 5 hours produce enough value to meet his or her subsistence needs. This means that the value produced in the other 3 hours is surplus value, and since the worker is remunerated only for the cost of reproducing his or her labour - not the full value of the goods or services which their labour creates - it will accrue to the capitalist as profit.

Another way of thinking about it is to say that since all commodities exchange on the basis of the labour time that went into their production (including that needed to extract raw materials and build machinery, not just

in their final manufacture) and yet the worker does not receive the full value of the commodity, clearly exploitation exists.

Commodity Fetishism

However, by treating labour as a just another commodity going into the production process alongside raw materials, tools and plant machinery the capitalist system conceals this exploitation in a process which Marx calls "commodity fetishism". From this people derive the idea that the capitalist him or herself actually creates value too since they supply the materials and means of production, when in fact without the introduction of labour these commodities are unable to do more than conserve their existing value.

The relations of exploitation which were readily apparent under feudalism - where the peasant worked so many days of the year on his own land to feed and provide for his own family, and the remainder on the lands of the local baron the proceeds of which went to maintain the feudal lord - are under capitalism completely obscured.

Under capitalism - unlike feudalism or other forms of pre-capitalist society - commodities are converted into money form only in order to then be exchanged for other commodities. However, in the current epoch this entire process is stood on its head so that money or capital now is converted into commodities (means of production, raw materials etc) only in order to generate a larger amount of capital. If it did not require the crucial addition of labour power in order to create new value, but could simply increase its own value spontaneously then there would be no need for it to engage in the sphere of production at all. Clearly though this is not the case.

This is significant particularly when thinking about all of the current hype about the new "pure" form of financial capitalism, in which money supposedly breeds money without any reference to the real physical economy.

Relative versus Absolute Surplus Value

But this is jumping ahead a little. Capitalism, more than any previous form of economic organisation, is a *dynamic* system whose fundamental laws of motion are competition and an inherent drive towards expansion. Since all

production is subordinated to the need to accumulate more capital, individual capitalists must always strive to increase the level of surplus value they extract from their workers as well as to sell more and more commodities.

An increase in surplus value can take place in one of two main ways: firstly through the increase in the duration of the working day (absolute surplus value), or secondly through an increase in productivity through increased levels of mechanisation, speed-up or a more specialised division of labour (relative surplus value).

The first method (increase in the working day) is generally typical of capitalist development in a period of low technological development, such as Britain in the nineteenth century. It gradually lost its appeal as larger capitalist firms which could afford greater outlay of fixed or constant capital in plant machinery etc realised greater productivity from their workers, making each individual product or commodity cheaper to produce and in turn lowering the amount of socially necessary labour time to produce a specific commodity as determined across the whole economy. The smaller capitalists who relied on more traditional methods of surplus value extraction were as a result driven from the marketplace.

Monopoly Capitalism and Imperialism

As a result of the “compete or sink to the bottom” imperative inherent in the capitalist system, from around the end of the nineteenth century the advanced capitalist nations of Europe sought to create new markets for their products by the forcible annexation of new colonies in Africa and Asia and their integration into the capitalist system. At the same time in a parallel development the major capitalist firms in each industry also sought to form monopolies to prevent the kind of competition that would lead to economic crises and the destruction of capital. By in effect locking up a part of their productive capacity, they could control the price of commodities and offset the tendency for the rate of profit to decline with increased investment of constant or fixed capital as opposed to variable capital (i.e. wages).

This tendency can be statistically measured if we take the total surplus value and divide it by the sum of capital advanced on both wages and means of production/raw materials etc ($c + v$). The total amount of surplus value can

continue to increase, but because of the increasing ratio of constant versus variable capital the return on capital investment will still decrease. This whole process, only partially foreseen by Marx, was brilliantly described by the Russian revolutionary Vladimir Lenin in his pamphlet *Imperialism: the highest stage of capitalism*.

However while competition within national economies was dampened down, conflict between the capitalist nations led to the outbreak of World War I and indirectly World War II as well. Here the prize at stake was a greater share of an obviously finite world market. Thanks to the destruction of much of the European accumulated capital during the two World Wars, capitalism as a whole was able to partially overcome for a time its structural tendency towards crisis.

Since the 1970s though the system has been faced with another crisis of over-accumulation, with a resurgent Japan and Germany combined with the emerging might of China challenging the US for global dominance. Even the restoration of capitalism in Russia and Eastern Europe during the 1990s has not been enough to offset this new crisis.

Moreover, the tendency for capital tied up in means of production to rise against wage expenditure makes investment in the productive sector less profitable and therefore less attractive to investors.

The Rise of Finance Capital

In a bid to bypass this structural conundrum, capital has sought to enlarge the world market through the creation of a gigantic credit bubble and also through increased investment in areas such as real estate, debt bonds and foreign currency trading.

The problem for capital generating profits through revenue from interest and from rents however is that this entire financial sector is still reliant on the extraction of surplus value from the working class. As Karl Marx explained in his *Theories of Surplus Value*, interest and rent are fundamentally just an apportionment of some of the surplus value created by the worker. Though the relationship between the finance sector and the "real economy" has never been so convoluted and mysterious as it seems today, the truth remains that these profits realised by private equity partnerships and

speculators have to be paid for out of the profits of the capitalist engaged in actual production. However much it might try, capitalism cannot simply levitate away from its productive base on a magic carpet.

In the long run the rate of interest and rent is determined by the rate of profit for the ordinary capitalist, which is why the continued expansion of the world market through the extension of credit is such a fundamental necessity to the inhabitants of Wall St and the City of London.

There is a limit however to how far this kind of credit-fuelled expansion can go, as New Zealand is currently finding out. As it requires a massive influx of funds to pay for all the imports it leads in time to an over-accumulation of capital and the driving of the national currency to unsustainably high levels, at which time a currency crisis is triggered and the entire capital stock (as well as labour power) of that nation is drastically devalued. This has happened recently with the Thai *baht* and the Brazilian *real*, and will eventually occur with the New Zealand dollar too once the gap between the floating value of our currency compared with the actual productive base of the economy grows to the point where international investors lose confidence.

The Current Phase: "Lean" Capitalism

Another way in which capitalism seeks to escape its own inner contradictions is through the revival of the most primitive (vintage nineteenth century) form of surplus value extraction - making workers work longer and harder through the process of speed-up and extension of the working day. Thus in New Zealand we have regressed over the last 30 odd years from the forty hour week to point where currently in excess of 1 in 5 Kiwi workers puts in more than 50 hours every week.

The phenomenon of speed up helps to explain why the value of manufactured goods produced in New Zealand has remained more or less constant over the last few decades even adjusting for inflation, despite the fact that the sector only employs a small fraction of the workforce it used to. Although some high profile NZ companies such as Fisher & Paykel have recently decided to transfer some of their production offshore, this has nothing to do with a lack of productivity on the part of the workforce but rather stems from the desire of these firms to escape from the problems of

capital over-accumulation (the high dollar and an increasing ratio of constant as opposed to variable capital) through migration to a part of the world where the cycle of capital accumulation is currently at a low point (such as Thailand).

Meanwhile the part of the workforce that was deemed surplus to industry's requirements has found employment increasingly in the non-productive sections of the economy such as retail, where the only method for companies to increase profits is to hold down wage costs as they cannot add value to the already-finished products which they sell.

This brings up another interesting contradiction: under capitalism only labour that realises an exchange value through the sale of products and services in the market is actually "productive" in the sense of creating surplus value. Labour which is either not directed towards the production of exchange values or goes into the production of commodities which end up unsold is essentially unproductive - yet the very processes of capitalism itself tend over time to increase rather than decrease the ranks of these "non productive workers". While some - such as teachers and lawyers - perform an important function in terms of providing the capitalist system with ideological legitimacy - others (such as the over 500 000 retail workers in NZ) play no obvious role at all.

Similar processes are at work in the US as well, where manufacturing now accounts for less than 15% of domestic profits, down from over 50% in the 1960s. As in New Zealand manufacturing worker productivity has increased, however in parasite-like fashion the retail and financial investment sectors have drawn an ever increasing share of the total surplus value as capital refuses to invest back into the production process.

The irrationality of a system which is constantly overcome by crises of over-accumulation while having an innate inability to fully utilise productive capacity has never been clearer than it is today. That is why now more than ever it is imperative to arm ourselves with a coherent and powerful critique of capitalism such as only Marxism can provide.