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# Marxist-Leninist Organisation of Britain

## Principles of Marxism-Leninism

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P R I N C I P L E S   O F

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M A R X I S M - L E N I N I S M

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An elementary course

Class Two : How Capitalism Works (Part One)

Published by:

THE MARXIST-LENINIST ORGANISATION OF BRITAIN

The INTRODUCTION to the course, which contains details of the recommendations of the Marxist-Leninist Organisation of Britain as to the methods of conducting the course and its aims, was published with Class One.

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### SYLLABUS

- Class One: The Development of Society.
  - Class Two:
  - Class Three: How Capitalism Works.
  - Class Four: The State and the Road to Socialism.
  - Class Five: The Party of the Working Class.
  - Class Six: The National Question.
  - Class Seven: War.
  - Class Eight: How Socialism Works.
  - Class Nine: The World Outlook of Marxism-Leninism.
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### CLASS TWO : HOW CAPITALISM WORKS (Part One)

#### 1. WHAT IS A COMMODITY?

Something produced for exchange, not for the personal use of the producer and his family.

A peasant who grows cabbages for his family to eat is engaged in production for use. But if he exchanges them with the landlord of the local inn for ale, he is engaged in commodity production.

#### 2. WHAT IS SIMPLE COMMODITY PRODUCTION?

The production of commodities by producers who own their own means of production, as was carried on by artisans in the later stages of the feudal system.

#### 3. WHAT IS CAPITALIST COMMODITY PRODUCTION?

The production of commodities by working class producers in a capitalist society, that is, by producers who do not own their own means of production and so are compelled, in order to live, to seek employment with capitalists owning the means of production.

#### 4. WHAT IS A MARKET?

An area where those who wish to dispose of a commodity and those who wish to obtain it are in contact. Thus, we may speak of a livestock market or a rubber market. And we may speak of a local market, a national market and -- where there is an international communications system in operation -- a world market.

A market where there are a number of separate individuals or firms competing to dispose of a commodity and a number of separate individuals or firms competing to obtain a commodity is called a competitive market.

## 5. WHAT IS THE RATE OF EXCHANGE OF A COMMODITY?

The number of commodities of other kinds for which a commodity can be exchanged in a market at a particular time. If a cow can be exchanged in a town market for two pigs, we say that the rate of exchange of a cow in that market is equal to 2 pigs, while the rate of exchange of a pig is equal to  $\frac{1}{2}$  cow.

## 6. WHAT IS THE VALUE OF A COMMODITY?

Clearly it is not necessarily equal to its rate of exchange in a particular market, for in the last example we may speak of a cow being "worth more" or "worth less" than 2 pigs; that is, we may say that the value of a commodity is more or less than its exchange rate.

At the basis of the exchange rate between two commodities lies the relative quantity of work required to produce them. The value of a commodity is defined as the socially necessary labour time taken to produce it. If it takes 4,000 times as many man-hours to make a Ford Cortina as to make a clay-pipe, we say that the value of the car is 4,000 times that of the pipe.

## 7. WHAT DETERMINES THE RATE OF EXCHANGE OF A COMMODITY IN A COMPETITIVE MARKET?

Supply and demand, which may cause the rate of exchange of a commodity to fluctuate above or below its value.

If there is a shortage of cloth, those who wish to obtain it offer more than its value in order to get some for themselves. On the other hand, if there is a glut of cloth, those who wish to dispose of it offer to do so at less than its value in order not to have it left on their hands.

However, if the rate of exchange of cloth is above its value as a result of shortage, the production of the cloth yields exceptionally high returns, so that more people go in for weaving it, the production

of cloth increases and its rate of exchange goes down towards its value. The reverse process operates if the rate of exchange of cloth is below its value as a result of supply exceeding "demand"; the production of this commodity yields exceptionally low returns, so that less is woven and the rate of exchange rises towards its value.

Thus, in a competitive market there is a long-term tendency for the rate of exchange of each commodity to correspond to its value.

## 8. WHAT IS BARTER?

The direct exchange of one commodity for another, e.g., wheat for bricks.

## 9. WHAT IS MONEY?

A commodity (or token of a commodity, such as a £1 banknote, which stands nominally for a pound's worth of gold) which is generally accepted in a particular community as a medium of exchange.

The introduction of a monetary system removes many of the difficulties inherent in a barter system. Under the barter system, if a weaver wishes to obtain a pair of shoes he must search for a shoemaker who wants cloth. When money is in social use, he may sell his cloth to anyone for money and use this medium of exchange to buy shoes from any shoemaker he wishes.

## 10. WHAT IS PRICE?

The rate of exchange of a commodity expressed in terms of money.

## 11. WHY DO PRECIOUS METALS, SUCH AS GOLD AND SILVER, COME INTO USE AS MONEY?

For convenience of use and transport. Being rare, their production involves a relatively high amount of labour time, so that a small quantity of a precious metal embodies a very large value.

## 12. WHAT IS LABOUR POWER?

The capacity of a worker to work for a certain period of time.

The worker, owning no means of production, is compelled in order to live to sell his labour power to a capitalist. Thus, in capitalist society a worker's labour power is a commodity.

## 13. WHAT DETERMINES THE VALUE OF LABOUR POWER?

As with other commodities, the amount of socially necessary labour time involved in its production, that is, the value of the commodities required to produce, maintain and reproduce it.

The value of labour power is not, however, that of the bare subsistence of the worker and his dependents (who form the next generation of workers), but depends on such factors as the subsistence necessary to train a skilled worker, the degree of "civilisation" existing in the country concerned, and so on.

## 14. WHAT ARE WAGES?

The price of labour power.

In a competitive labour market, as in the case of other commodities the price of labour power may fluctuate above or below its value according to supply and demand, but in the long run its price tends to equal its value.

## 15. WHAT IS SURPLUS VALUE?

The new value created by a worker's labour in the course of production, over and above the value of his labour power.

If a worker receiving £15 a week in wages created only £15 of new value in a week, his employer would obtain no financial benefit from employing him. An employer employs a worker only because he produces in a week an amount of new value which exceeds what is paid to him in wages: the difference is the surplus

value, which is created by the employed worker and appropriated by his employer. If a worker creates £25 of new value in a week and receives £15 in wages, his employer has obtained £10 of surplus value from that worker. If he employs 1,000 such workers, he obtains a total of £10,000 of surplus value a week.

It is by this mechanism that the capitalist class exploits the working class, that is, lives on its labour. It will be clear that exploitation in a capitalist society has a more concealed character than in slavery or feudalism.

## 16. WHAT IS CAPITAL?

All that is owned or hired by capitalists in a capitalist society -- buildings, plant, raw materials, labour power -- enabling them to acquire surplus value, that is, to exploit workers.

Money expended by capitalists for the above purpose -- a process known as investment -- is also called capital.

## 17. WHAT IS CONSTANT CAPITAL?

All capital except that expended on the hire of labour power.

Buildings, plant and raw materials do not themselves create new value, which is created only by human labour. Since the capital expended on those items remains unchanged in the course of capitalist production, it is called constant capital.

## 18. WHAT IS VARIABLE CAPITAL?

Capital expended on the hire of labour power.

Since the new value created in the course of capitalist production is created entirely by the workers' labour power, it is the capital expended on this item which creates the new value (including the surplus value appropriated by the capitalist). Thus the capital expended on labour power may be regarded as changing in

value, as increasing in value, in the course of production. It is, therefore, called variable capital.

#### 19. WHAT ARE RENT, INTEREST AND PROFIT?

The portions of surplus value which are appropriated by different sections of the exploiting class in a capitalist society.

Rent may be paid by the employer (the entrepreneur) to a landowner or landlord for the hire of the land and/or buildings where his enterprise is carried on.

Interest may be paid by the employer to a financier or bank for the hire of the money capital he requires to carry on his enterprise.

Profit is the portion of the surplus value which the employer retains for himself as the "reward" for his enterprise.

Rent, interest and profit all have their origin in the exploitation of the workers, and a capitalist who owns his own land buildings and capital retains all three portions of the surplus value for himself.

#### 20. WHAT IS COMMERCIAL PROFIT?

The profit obtained by a capitalist merchant, one engaged in the distribution (that is, the selling) of commodities.

#### 21. WHAT IS THE SOURCE OF COMMERCIAL PROFIT?

Not in the process of distribution itself. Value is created only by labour engaged in production, surplus value only by labour employed in capitalist production. The act of selling creates neither value nor surplus value.

The source of commercial profit (as well as of the wages of employed distributive workers) lies in the surplus value created by employed production workers. The capitalists concerned in production sell their finished commodities to the capitalists concerned in

distribution at a discount below their value, and the latter realise their commercial profit by selling the commodities at their value.

In other words, the capitalists concerned in production pass to the capitalists engaged in distribution a part of the surplus value created by their employed production workers.

#### 22. WHAT IS THE MOTIVE OF PRODUCTION UNDER CAPITALISM?

Profit.

Each capitalist firm tries to make for itself the maximum possible amount of profit.

#### 23. CRITICISE THE ANALYSIS WHICH FOLLOWS:

"IF THERE IS A SHORTAGE OF A PARTICULAR COMMODITY IN CAPITALIST SOCIETY, PRICES RISE AND PROFITS RISE ABOVE THE AVERAGE IN THAT FIELD OF PRODUCTION; THUS THE CAPITALISTS INCREASE PRODUCTION OF THIS HIGHLY PROFITABLE COMMODITY.

IF THERE IS A GLUT OF A PARTICULAR COMMODITY, PRICES AND PROFITS FALL; THUS THE CAPITALISTS REDUCE PRODUCTION IN THIS LESS PROFITABLE FIELD.

IN THIS WAY THE PROFIT MOTIVE GEARS PRODUCTION AUTOMATICALLY TO DEMAND".

The "demand" which is approximately satisfied as a result of the profit motive is not the needs of the masses of the people, but what is called "effective demand", that is, demand measurable in terms of the money which consumers are able and prepared to pay to satisfy their needs.

If the entire working people of a capitalist country demonstrated in the streets for bread, there would be no effective demand for bread unless they had the necessary money to offer in bakers' shops.

The profit motive gears production approximately to the needs of those people with sufficient money to express their needs as effective demand. That is

why, although there is (and has long been) an acute housing shortage for working people in Britain, the capitalist building firms do not use the resources of the industry to build houses and flats for working people, but instead to erect such things as office buildings. They do so because the latter course is more profitable, although the social need is incomparably less.

Only in a socialist society, where the profit motive has been abolished and production is consciously planned, can production be geared to the real needs of the masses of the people.

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The next class will be:

HOW CAPITALIST WORKS (Part Two)

Among other questions, it will deal with

Economic Crises and their Cause.

The Class Struggle.

Monopoly capitalism.

Colonialism.

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