

STATE CAPITALISM AND MARXISM

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Introduction

Three leading strands of thought will be developed in this book: (1) the evolution of political economy in relation to the actual economic and social development; (2) the evolution of Marxism in the light of events that helped develop its concepts; and (3) the application of Marxism to the current problems arising from the trend toward state capitalism and the necessity of creating full employment.

Marx had analyzed very carefully the development of previous political economy. He found three leading tendencies: (1) the law of value and theory of accumulation of Smith and Ricardo; (2) the theory of effective demand and maldistribution of income of Malthus and Sismondi; and (3) the utility theory and law of markets of Say and Senior.

By examining how these three tendencies in political economy arose out of the development and problems inherent in capitalism itself, Marx was able to anticipate the current schools of political economy. Part of the thesis of this book is to trace the reappearance of the ideas of earlier economic thought in contemporary thought. Thus Marginal Utility had its origin in Say and Senior, the Keynesian school in Malthus and Sismondi, and the present concern with production and more production completes the cycle back to Smith and Ricardo.

Marx's fundamental critique of political economy is the basis for his answer to the various tendencies in political economy. Unlike the representatives of these other tendencies, he saw that capitalist crises arose, not accidentally, and not because of a deficiency of effective demand, but out of the very vitals of the economic system--the contradiction between the productive forces and the production relations. He held that the mode of labor under capitalism was the underlying cause of crises because:

Deficiency of
effective demand
is derived
from the "mode"

(1) It was not merely the product the laborer produced that was alienated from him. "In the alienation of the object of labor is only crystallized the alienation, the renunciation in the activity of labor itself."

(2) The domination of the capitalist over the worker was in reality "the mastery of dead over living labor."

(3) Hence, the ultimate development of capital accumulation in any given society "in the hands of one single capitalist or...one single capitalist corporation", or the statification of production, would not abolish the capitalist antagonism, but only drive it to the extreme.

However, the alienation of the laborer creates a striving for universality on his part. Under capitalist production man is degraded by the accumulation of the productive forces. At the same time, faced "with the intellectual potencies of the material process of production as the property of another and as a ruling power", man feels the need of appropriating the mass of accumulated labor for his own development. Marx saw that such an achievement of universality on the part of the laborer, the chief productive force in society, would become an economic necessity. The only solution to capitalist crises lay in the abolition of the alien mode of labor.

Until the development of the totalitarian state, this philosophical foundation of Marx was not fully understood even by Marxists. It is only today that it is possible fully to comprehend that Marx's analysis of alienated labor was not a nineteenth century humanitarian adjunct to his scientific theories. Far from being a vulgar materialist, Marx based his perspectives of the inevitable collapse of capitalism and its transformation into socialism on a realization that labor would seek universality and completeness in its actual material life as a producer.

Marx foresaw the present trend toward state capitalism not because he was a prophet but because of his dialectical method of tracing through to the end all trends of economic development. It is impossible to understand Marx's major theoretical work if one begins by thinking that the particular method, Hegelian dialectics, is an absurdity. The absurdity would be if the method were the proof. The proof can only be in practice, in the actual development of society itself.

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PART I - The Rise and Fall of Classical Political EconomyChapter 1 - Smith and Ricardo

1776 heralds the birth of the United States as a nation, and the birth of political economy as a science. The publication of Adam Smith's The Wealth of Nations makes a clean break with mercantilism. A great advance in political economy is made when wealth is viewed as not something outside of man--precious metals--but as a product of man's activity. Labor is discovered to be the source of all values. Ricardo builds on this foundation stone of the labor theory of value, clearing from it the inconsistencies of Smith who at one time correctly defined the value of a commodity as the labor time incorporated in it, but at other times still ^{referred} ~~referred~~ to the value of a commodity as that amount of labor which it could command on the market.

The industrial revolution, which began in England in 1760, and which was preceded by the development of capitalism in a number of flourishing industries, made clear that the value of any commodity was not the result of exchange, but of production. At the same time it demonstrated that the exchange of products between countries did not impoverish the importing country. On the contrary, the policy of laissez faire best permitted the development of the productive forces. Young capitalist industry helped the development of classical political economy, or, more precisely, the latter reflected the evolution of the capitalist mode of production.

Smith and Ricardo were the political economists of the period of manufacture. The further development of capitalism as machinofacture demanded an explanation of how the labor theory of value functioned in the period of advanced capitalist production. To work out the relationship between the labor theory of value and the phenomena of the market, further distinctions had to be introduced into the theory of value. Since value, however, is not merely a quantitative,

Make clear
that you are
using value
in the sense of
labor time,
not in the
sense of
price
i.e. relative
exchange value
in terms of other
commodities

-4-

but a qualitative relationship, (Relationship of men in production includes the relationship between capitalist and worker), this would have meant the elaboration of a theory of surplus value as a corollary to the labor theory of value. Because of its failure to draw this logical conclusion from its theory of value, classical political economy failed to explain:

(1) how the unequal exchange between capital and labor in the process of production resulted from the equal exchange of money for labor power in the market, and

(2) how capitals of given magnitudes, despite their different organic compositions, received uniform rates of profit.

Instead of analyzing these phenomena ^{which} ~~that~~ seemed to contradict the labor theory of value, the classicists tried to "spirit away" the constant portion of capital.

To solve the first difficulty, it was necessary to make a distinction between labor and labor power, Marx's contribution to political economy.

To solve the second difficulty, it was necessary to distinguish between paid and unpaid labor embodied in commodities, which is the great divide that separates Marx's theory of surplus value from the classical theory of value. ✓

Holding instinctively to a theory of surplus value they did not explicitly develop, the classicists tried to bring an identity between the rate of surplus value (ratio of surplus value to variable capital) and the rate of profit (ratio of surplus value to total capital) by means of a "violent abstraction", that is, without showing how the rate of surplus value is transformed into the rate of profit. They recognized the decline in the rate of profit, but could not explain it, and hence were at a loss to understand the most characteristic phenomenon of capitalism: crises.

In dealing with the rise and decline of classical political economy, this author will use not only her own researches, but the analysis of Marx in his Theories of Surplus Value. Marx explains that classical political economy could go no further than it did because it considered the capitalist system as a permanent, natural order. It therefore could reveal only its positive features as against the previous social orders. Before one could reveal not only the positive, but the negative, aspects of capitalism, one had to be freed of this concept of capitalism as an eternal social order, and recognize it as a historical stage in the development of the material conditions of production and the general evolution of humanity from the feudalism of the past to the socialism of the future. This, in turn, would have imparted a deeper understanding of the present capitalist system. This deeper understanding did not ~~emerge during the next period of~~ ^{emerge during the next period of} the disintegration of political economy.

.....

Chapter 2 - Disintegration of the Ricardian School

Classical political economy was bound by Say's Law of Markets, the concept that product exchanged for product, and every supply created its own demand.

This is, however, contradicted by the appearance of crises. Every critical stage of capitalist production gives rise to a new school of economic thought. 1816, 1819, 1825--the years of recurring crises--posed sharply the question of overproduction and underconsumption. Both from the right--Malthus--and from the left--Sismondi--economists questioned the complacency of the classical theory of accumulation--production for production's sake, or that expanded production would solve its own problems.

Malthus's "theory of gluts" challenged this theory and proposed an alternate solution. Malthus maintained that crises arose out of insufficiency of demand for the products manufactured. To create effective demand, it was "absolutely necessary that a country with great powers of production should possess a body of unproductive consumers"--the clergy, landlords, etc.

It was soon revealed that this challenge to the classical theory of accumulation had a very practical reason for being:

"That labor is the only source of wealth is a doctrine no less dangerous than mistaken since it unfortunately gives a basis to those who assert that the property belongs to the working classes and that part which others receive is stolen from the first."

It would be wrong, however, not to see that this practical reason, based as it was on the antagonistic relationship between capital and labor, would have produced a similar challenge, although motivated differently, from the side of labor. Overwhelmed by the contradictions of capitalism, Sismondi, the fountainhead of all underconsumption theories, asked whether it was ^{not} possible to hold back the productive forces until production and consumption were brought into correspondence with one another.

Early in its history, political economy produced the two theories between which it has varied: (1) that production created its own market, and (2) that it was impossible for the worker to "buy back" the products he himself produced.

Marx's great contribution consisted of dialectically combining these. The dominant feature remained the fact that production did create its own ^{market.} ~~products~~. But that did not negate the existence of underconsumption. It merely showed that within capitalist production there resides a disregard for the limits of consumption. The productive system functions in such a way that there is an ever greater preponderance of means of production over means of consumption. Hence the idea of raising consumption in no way ^{settles the problem of} ~~answers~~ the destiny of capital goods. The basic contradiction, maintained Marx, was not between production and consumption, but between the productive forces and the production relations. Sismondi, he said, correctly described the contradictions of capitalism. However, he knew not how to resolve them because he did not understand them. The problem could not be attacked by changing the maldistribution of income because, said Marx, "Relations of distribution only represent production relations sub alia speciebus."

The attempt to resolve the contradiction between the productive forces and the production relations, not in the sphere of production, but in the field of distribution, only led to the breaking-up of the labor theory of value.

The abandonment of the labor theory of value involved: (1) the development of a utility theory, and (2) the assertion of the productivity of capital. Senior, who tried to reconcile the labor theory of value of Ricardo with the utility theory of Say, ended up by substituting a cost of production, supply and demand theory for the classical theory of value. He completed his repudiation of the labor theory of value by introducing the idea of the productivity of capital under the term of "abstinence".

The relationship of this "vulgarization" of theory (Marx's term) to the developing class struggle is seen most clearly in Senior's opposition to the Factory Act of 1837. To combat the agitation for the Ten Hour Day, Senior elaborated the theory that purported to prove that a diminution of the 12 hour day would wipe away all profit since the latter was created "in the last hour".

On a higher level, we will see this theory reappear with the rise of the Marginal Utility school.

Political economy had become a science when it moved from the field of trade--mercantilism--to the sphere of production--classicism. It has, with the disintegration of the Ricardian school, retrogressed to the field of distribution. The labor theory of value is saved not with this development, which Marx called "vulgar economy", but with the transformation of the science of political economy into the science of Marxism.

.....

This is rather obscure. I think the real point was that the "utility" school did not change the answer, but changed the question.

Actually in Marx the theory of relative prices is very much a demand & cost of production theory but he was not really interested in relative prices & the failure of his theory of relative prices does not seriously impair his system. The "utility" economists made relative prices the center of the whole theory.

PART II - Marxism

Chapter 1 - The Marxist Method

Marxism is wrongly considered to be a "new" political economy. In truth, it is a critique of the very foundations of political economy, which Marx considered to be the bourgeois mode of thought corresponding to the bourgeois mode of production.

Marx saw capitalism as a historical social order, the negation of a previous social order, feudal society. The modern society consists of two opposites, capital and labor. Marx set himself the task of laying bare the law of motion of this modern society. To discern this law, he applied dialectics, which he considered to be "the science of the general laws of motion both of the external world and of human thought", to the material development of capitalist society. "In the method of treatment," he wrote Engels, "the fact that by mere accident I have glanced through Hegel's Logic has been of great service to me..." And again: "Hegel's dialectic is the basic form of all dialectic, but only after it has been stripped of its mystical form, and it is precisely this which distinguishes my method."

Marx took the bare laws of the dialectic: (1) the transformation of quantity into quality, (2) the interpenetration of opposites, and (3) the negation of the negation. With the help of these laws he tried to penetrate the mechanism of the capitalist mode of production.

Marx begins with the discovery of classical political economy, that labor, or the activity of man, is the source of all values. He states, however, that it is insufficient to reduce wealth to labor in general. You must see the contradictory form in which labor appears in capitalist society: (1) abstract labor which creates values, and (2) concrete labor which creates use-values. Marx considers this his original contribution, and the pivot upon which, all political economy turns. The use-value and value of a commodity contain, in germ, all the contradictions of capitalist society precisely because this dual nature of commodities arises from the dual character of labor.

If you reply that it can't be stated in any other terms than I should say that
 proper is to be negation. "What can be said can be said clearly"
 Hence it can be stated, I tried to do it in my little book.

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Let this
 sentence
 in it very
 helpful.
 Are you trying to
 state a plan
 in the Hegelian
 manner which
 means?

The growth of capital is seen to be not merely a quantitative, but a qualitative, relationship. Along with the concentration and centralisation of capital, there is the socialization of labor. Along with the degradation of the worker to "an appendage of a machine", there is the discipline and his growing revolt prepared by the very mechanism of production. The contradictions are seen to render the system apart, and make it impossible for it to continue. The negation of the negation is seen to contain a new affirmation: the socialization of labor and the development, instead of the alienation, of the activity of man as the basis of the new society. Marxism thus incorporates into the science of economics, the subjective element, the laborer, the gravedigger of bourgeois society.

Marx's application of the laws of the dialectic to economic development revolutionized the whole study of economics. This had dealt with economic categories, such as, wages, profits, money, as if they were things, instead of expressions of production relations. For Marx all economic categories are social categories. The relations between persons in a commodity-producing society, he said, are of course attached to things, and appear as things. But this appearance belies, instead of manifests, the underlying essence: the relationship between capital and labor. This relationship dominates the whole of capitalist society, and hence the whole of Capital, including The Theories of Surplus Value:

In Volume I it appears as the relationship between constant and variable capital. (c/v)

In Volume II it appears as the relationship between the two main departments of social production: that of means of production and means of consumption. (mp/mc)

In Volume III it appears as the relationship between surplus value and total capital. (s/ c + v)

In The Theories of Surplus Value it is analyzed in the various theories as they appeared historically and reflected partial or distorted aspects of reality.

Chapter 2 - Capital, Volume I.

The Law of Value and the Theory of Unemployment

Marx begins his study of capitalist wealth with an examination of the manner in which it appears: "an immense accumulation of commodities." That soon turns out to be mere appearance which dazzles the sight, and imparts to the social relations between men "the fantastic appearance of being relations between things."

To discern the real relations between men involved in the exchange of commodities, Marx introduces his first major contribution to the science of economics. He makes a distinction between labor power, the ability of man to labor, which is a commodity bought at value like all other commodities, and labor, the act of laboring itself, which is not a commodity, is not bought or sold, but ~~is~~ is the source of all value. By means of this distinction between labor and labor power Marx is able to show that the exchange of commodities between the capitalist and the worker is based on the fact that both money or wages and labor power are exchanged according to the socially necessary labor incorporated in each. The law of value has thus not been violated.

No. Previous
normally
different from
value. (Vol III)

i.e. wages =
subsistence
minimum.

This is a crucial
assumption
at the basis of
the whole system
analysis

But, continues Marx, one of these commodities, money, is materialized labor, while the other, labor power, is inseparable from the living laborer. It is true that the laborer was paid at value, what it will take to produce him and reproduce his kind--clothing, food and shelter. But since the use-value of a commodity belongs to him who paid for it, the utilization of the capitalist makes of the commodity he bought is his affair. In the factory, where labor power becomes labor, the laborer works more hours than it takes to produce his means of subsistence. The capitalist is thus able to extract from the laborer an unpaid surplus. Thus Marx's law of value is his law of surplus value. This we cannot see in the market, but only in the inner abode of production.

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For analyzing that process of production, Marx establishes his economic categories:

It is up
the value
of the constant
value of C
to the variable
of capital
conditions
See my 1st
chap II

(1) Constant capital, the means of production and the raw materials, which yield to the commodities their value, in whole or in part, but which can yield no more than their value since that has been established by the labor process from which they issued.

(2) Variable capital, the labor power in the actual process of production, does, however, undergo a variation in magnitude, since it reproduces not only the value paid for it but an unpaid surplus. Heretofore economic science had made a distinction only between fixed and circulating capital, distinctions which flowed from the process of circulation, not from the process of production where the surplus value is created.

(3) Surplus value is the congelation of the unpaid hours of labor.

Volume I is written on a very high level of abstraction. The economic laws of capitalism are viewed abstractly; their interaction with other laws as well as each separate economic trend is developed to its ultimate. At no time is sight lost of the "absolute general law" --the reserve army of labor--which dominates over all these economic laws. Thus, for example, the law of centralization and concentration of capital reaches its ultimate limit in any given society by being concentrated in "the hands of one single capitalist or one single capitalist corporation." This, however, in no way upsets the "absolute general law", which "establishes an accumulation of misery corresponding with the accumulation of capital. Accumulation of wealth at one pole, is, therefore, at the same time, the accumulation of misery, agony of toil, ignorance, brutality, mental degradation, at the opposite pole, i.e., on the side of the class that produces its own product in the form of capital."

It is this absolute general law which dooms capitalism. Its law of motion is its law of collapse.

The failure to give "full employment" shakes the whole structure of capitalism. This law of population is characteristic of capitalism alone, which must with ever greater increase of constant over variable capital, produce an army ^{over and above the} ~~surplus~~ the needs of capital. There is only ~~one~~ way to overcome the incapacity of capitalism to reproduce its only value-creating substance--labor power in the shape of the living, employed laborer--and that is through the abrogation of the law of value.

Volume I, which Marx subtitled "The Capitalist Process of Production", can further be defined as "The Law of Value and the Theory of Unemployment". The solution to the ills of capitalism remains the same: "Centralisation of the means of production and socialisation of labour 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."

....

This does not seem true to me. The point of Marx, as compared to orthodox economics

is his emphasis on technical progress as the main spring of the whole process

① Concentration is due to large-scale economies

② Accumulation is due to competitive pressure to introduce new techniques

③ Growth of organic composition due to technique

④ Growth of surplus due to increasing productivity

⑤ "Reserve army" renewed by labor saving techniques

In orthodox economics technique is usually treated as a "change of date"

This is a great weakness compared to Marx

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Chapter 3--Capital, Volume IIThe Material Form of Capital and the Theory
of Expanded Reproduction

In the Archives of Marx there is to be found what Marx called "Chapter 6" of Capital, which was to have originally concluded Volume I and served as a transition to Volume II. This very important manuscript has been published by the Marx-Engels Institute in Moscow in 1933, in parallel pages in German and Russian. It is, however, completely unknown in the United States. The author intends to translate this as an appendix to the book. This historic document will help in elucidating the question of the circulation of commodities that are not mere commodities, but "commodities as products of capital, as carriers of surplus value". It bears crucial importance for one of the central arguments around Volume II, relating to the question, "What if commodities do not sell at their equilibrium values?"

Why must
you use this
mythical
language?

Marx considered the process of circulation of capital as part of the reproduction of capital. Hence, Part I of Volume II, which deals with the metamorphoses of capital, and Part II which describes the turn-over of capital, are only the prologomena to Part III, which analyzes "Accumulation and Reproduction of Capital on an Expanded Scale."

To show how the law of value operates in a given capitalist society, Marx introduces here a new element: the material form of capital. He divides the entire social production into two major departments: Department I produces means of production; Department II produces means of consumption. The preponderance of constant over variable capital, with which Marx dealt in Volume I, where he analyzed the value form of capital, manifests itself here as the preponderance of means of production over means of consumption. This preponderance also defines the "market". Marx's division of social production into these two departments, which cuts through the whole tangle of markets, is borne out by empiric data of the nature of the capitalist

What does this
mean?

-15-

market. In the United States, for instance, 90 per cent of pig iron is "consumed" by the companies that produce it; 50 per cent of the "markets" for the products of the steel industry is the transportation industry. Thus we see that Volume II, which Marx subtitled "The Process of Circulation of Capital", can be further defined as "The Material Form of Capital and the ~~the~~ theory of Expanded Reproduction".

Marx here constructed an ideal capitalist society which had no market problems; foreign trade was excluded. Although there were no "third groups" to absorb the products of expanded reproduction--the society consisted only of workers and capitalists--everything produced was "sold", that is, went into further expansion. Marx's use of a closed nation, which has never existed historically and which seemed to run counter to anything that could possibly exist, as his point of departure, created a storm of controversy. It is significant, however, that what Marxists were arguing about in the 1890's (it lasted up to 1913), was first taken up by bourgeois economists with the depression of 1929. Kalecki thinks that Rosa Luxemburg's Accumulation of Capital, which brought the theory of underconsumptionism within the Marxist ranks, supplied "the clearest formulation of the problem of effective demand" until Keynes' The General Theory of Employment, Interest and Money. Today's controversies prove how penetrating was Marx's argument that Department I was the greater of the two departments of social production and hence of the market. Because of the profundity of his analysis of the tendencies of political economy in his day, it stands as an answer to the theories of our day.

Marx had designed Volume II for two purposes:

(1) As an answer to classical political economy which "spirited away" the constant portion of capital by dividing total social production, not into constant plus variable plus surplus, but only into variable plus surplus ("wages, profit and rent" in the terminology of Smith), thus being unable to explain how the value of the total annual product was greater

Do you mean
that more labor
is employed
on capital than
on final goods?
Or mainly that
more labor is
employed at
"early stages"
of production?

than the annual product (or net product) in values.

(2) At the same time Marx wished to answer the under-consumptionist argument that continued capital accumulation was impossible because of the impossibility of "realizing" surplus value, i.e. of selling its products. He showed that surplus value was not some disembodied spirit floating between heaven and earth, but was embodied within means of production and within means of consumption. Since capitalist production meant the ever greater preponderance of means of production over means of consumption, the surplus value was "realized" by expanded reproduction. Production creates its own market, Consumption follows production, not vice versa.

Very true

To dispute this postulate of Marx means to dispute the validity of Marx's analysis of the breakdown of capitalism ^{as arising} not ~~as arising~~ from the contradiction between production and consumption, but because of the internal contradictions of value production. Thus, dispute over the famous formulae in Volume II is, in reality, a dispute over the "general contradiction of capitalism", the central theme of Volume III, which Marx had written as Book III of Volume II.

....

Chapter 4 - Capital, Volume III

The Decline in the Rate of Profit and The Theory of Crises

Volume III, which deals with the phenomena of capitalism in their concrete movements, is the one which is preferred by present-day academic economists. These tell us that it is only from this vantage point, where Marx deals with prices and profits, that one can understand Volume I where he deals only in abstractions: value and surplus value. Marx's point was the exact opposite. He maintained that once you understand the law of surplus value, the law of profit would present no difficulty; if you reversed the process, you could understand neither the one nor the other.

It is true that Volume III is Marx's nearest approximation to the real world. Commodities are seen to exchange not at value, but at prices of production, that is, cost of production plus average rate of profit. Furthermore, surplus value does not remain an abstract mass of congealed unpaid labor, but assumes the palpable shape of profit, interest and rent--all in the form of liquid capital. The merchant and his middleman's profit and the financier and his ~~large~~ transactions and credit manipulations all come to life. What, however, is lost sight of by those who think that this shows that in Volume III common sense has triumphed over the Hegelian mysticism of Volume I, is that none of the laws enunciated in the latter ^{is} ~~are~~ abrogated in the former. The laws, modified in their actual operation, may not, through the intervention of counter-acting tendencies, ever reach their ultimate limit, but none of these laws ^{is} ~~are~~ contravened.

Surplus value remains a given magnitude, the congelation of so many unpaid hours of labor, which serves as the straight-jacket of capitalists, out of which they cannot get ~~out~~ by any market manipulations. All that competition can accomplish is to effect a general rate of profit, a sort of "capitalist communism" which assures ^{that} all capitals of given magnitudes receive

If you mean me, I see only one point of view here in opposition to the way

Don't tell me why I don't like the theory of prices in this context.

on capital invested

Yes. The law that commodities are exchanged at prices proportional to their values is unbroken.

My point is that this is true of the total of surplus value, not its rate of exploitation
is derived from that total simply by a division sum
The total surplus is an important & valuable conception. The mistake was thinking
that there is some value in one division sum rather than another
-18-

~~the~~ corresponding shares of the total surplus value.

The transformation of the ~~rate~~ rate of surplus value into the rate of profit is merely the expression of the ratio of surplus value to total, instead of only to variable, capital. But this in no way changes the law of surplus value, which is that only living labor is creative of surplus value. Individual prices oscillate above or below value, but, in their totality, all prices are equal to all values. Monopoly ^{also} brings a modification into the operation ~~also~~ of the average rate of profit, but that is not the dominant law of capitalist production.

The dominant law of capitalist production--and the heart of Volume III--is the Law of the Falling Tendency of the Rate of Profit. Marx considered the theory of the ^{declining} ~~average~~ rate of profit the "pons asini" of the whole of political economy, that which divides one theoretic system from another.

The constant revolutions in production and the constant expansion of constant capital necessitate, of course, an extension of the market. But the enlargement of the market in a capitalist nation has very precise limits. The consumption goods of a capitalist nation ~~are~~ ^{are} ~~are~~ limited by the luxuries of the capitalists and the necessities of the workers when paid at value. The market for consumption goods is just sufficient to allow the capitalist to continue his search for greater value. It cannot be larger.

This is the supreme manifestation of Marx's simplifying assumption that the worker is paid at value. The innermost ^{Cause} ~~cause~~ of crises, according to Marx, is that labor power in the process of production, and not in the market, creates a value greater than it itself is. The worker is a producer of over-production. It cannot be otherwise in a value-producing society where the means of consumption, being but a moment in the reproduction of labor power, cannot be bigger than the needs of capital for labor power. This is the fatal defect of capitalist production. On the one hand, the capitalist must increase his market. On the other hand, it cannot be larger. This is what

This does
not at all
need any
criticism

What is it
that prevents
our rivers from
being re-wooded?

But if the
re-nitrication
supplies gets
short in the
problem

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(1) decline in the rate of profit, (2) deeper and deeper crises, and (3) a greater and greater unemployed army.

Today, when we see the fruition of the most abstract postulates of Marx--the concentration of capital in the hands of one single capitalist or one single capitalist corporation--we can see that the absolute limit of development of the law of centralization and concentration of capital has in no way been able to solve the problem of crises and the declining rate of profit. The given single capitalist society remains dominated by the law of value, the law of the world market, having its origin in technological revolutions, no matter where they originate. Atomic energy may ^{be} the secret discovery of the United States. But Russia must follow suit or perish. *And we do not intend to* This *period* will be dealt with in detail in the last part of the book.

....

*You have not understood the nature of my criticism
I don't think this gets us any further at all*

Chapter 5 - The Theories of Surplus Value

One section of The Theories of Surplus Value, entitled "Accumulation of Capital and Crises", which is of particular pertinence to today's discussion, will be translated by this author as an appendix.

Otherwise, these volumes, which remain untranslated into English, will be used widely by this author ~~not only~~ ^{not only} in her treatment of economic thought of Marx's day, but of today. Marx's critique of Malthus, for example, is also the answer to the underconsumptionists of today.

"The only merit of Malthus," wrote Marx in 1865, "is that he emphasized the uneven exchange between capital and labor. This merit is negated thanks to his confusion between the determination of value (Verwertung) of money or commodity as capital with the value (Wert) of the commodity as such..."

"The condition of overproduction is the general law of production of capital: production proceeds in accordance with the productive forces...and disregards the existing limits of the market, effective demand...besides, the mass of producers is limited and, because of the nature of capitalist production, must always remain limited..."

In contrasting classical political economy with "vulgar" economics, Marx comes to conclusions which cannot be overestimated for our day. He contends that finance capital theorists are so far removed from the direct process of production, live so fully in the fetishistic realm of interest, that they have produced theories of money and credit which ^{are} ~~is~~ nothing short of "a fiction without fantasy."

The fact that this very important work has been wholly neglected in the United States by Marxists and non-Marxists alike does not lessen, but heightens, the interest in it by scholars and the public alike.

....

If you mean
Keynes, you mean
holding up the
living time.
Keynes system
shows on the
falling inclination
to invest & so
suppresses the
mass saving habit
in Marx's
system

PART III - IMPERIALISM AND MARGINAL UTILITY

1870 initiates the epoch of monopoly capitalism and imperialism. The birth of Marginal Utilitarianism is coincident with it.

At the very time that the Paris Commune challenged the bourgeois state, and Marx elaborated his economic analysis* to show that the concentration of capital in the hands of the state would not abolish the capitalist relation, but push it to an extreme, bourgeois economics made a clean break with the value theory and elaborated a new utility theory.

Senior and Bentham, whom Marx castigated so mercilessly, were resuscitated, on a higher level: (1) Bentham's table of pains and pleasures became the dictum "a thing must be desirable to have power and to demand value." (2) Senior's "last hour" is not unconnected with "the final degree of utility" of the Austrians. Value became a completely subjective factor. In fact, the new school insisted that "cost was derived from price, not vice versa".

But this subjective outer covering, this doctrine of utility which allegedly involves only comparisons by each individual buyer for himself, not only stems from a materialist base in that it is coincident with the rise of imperialism and coupon-clipping; ~~But~~, more important, it reflects the stage of monopoly in the development of capitalist production.

The concern with the marginal unit of production arises from the deepening decline in the rate of profit. The capitalist class, confronted^{ed} with a diminishing quantity of surplus value in comparison to ^{to} total capital, must conserve every infinitesimal unit of value. That is why it is utilitarian mathematics, not

*The French edition of Capital was the first to contain the famous passage about the concentration of capital in any given society in the hands of "a single capitalist corporation". This author will in this section also take up Engels' Anti-Duhring, upon which Marx collaborated, since this work has the clearest exposition of state capitalism by the founders of scientific socialism.

I think this
is a necessary
see my notes
above

PART IV - The Problem of Our Day: State Capitalism

Chapter 1 - The New Deal and the New Political Economy

1929 marks the end of self-complacency in economic thought. Both the New Deal in the United States, and the new political economy given theoretical dress by Keynes' The General Theory of Employment, Interest and Money, are products of the same underlying inner malady of capitalism: value production face to face with the decline in the rate of profit.

The protracted depression following the crash silenced the vulgarizers of political economy who had denied that there was ~~such~~ a tendency for the rate of profit to decline. The new political economy of Keynes reestablished the thesis that there is such a tendency. However, it was inconceivable to this "new political economy", ~~that the decline comes from the very vitals of the productive system.~~ that the decline comes from the very vitals of the productive system. Marx, based as he was on the capital-labor relationship, saw the decay in capitalist production in the tendency of the rate of profit to decline despite the growth in its mass. The academic economists, on the other hand, see the decline in the rate not as a result of the organic composition of capital reflecting the relationship between dead to living labor, but as a result merely of "a deficiency in effective demand".

If Senior's "last hour" reappeared in "the" marginal product" in the Austrian school, Malthus's theory of effective demand reappears in the Keynesian school. The resuscitation of Malthus's theory is, however, distinguished by the new concept of "the propensity to consume", which links effective demand not with the unproductive classes, but the ~~very~~ productive masses. The very life of the capitalist system was made dependent upon its ability to give "full employment".

However, all attempts of achieving full employment--lowering interest rates, pump priming, deficit financing--resulted neither in full employment nor in "the euthanasia of the rentier".

No. of
economic
from the
vital
Six factors

By "merely"?
The admission
to "merely" is
the new
print.

This is a very
shortly says
ganging!

As significant for the study of the economic trends in our present epoch as were the Blue Law Books for the study of Marx's epoch are the T. N. E. C. reports. The author intends to trace the concentration of economic power in the United States through these reports, as well as analyse the trends ^{toward} state intervention in the economy with World War II.

However, the full significance of Marx's analysis of "the single capitalist society" is seen, not in the United States, but in Russia.

....

Marx doctrine of "increasing misery" is based on the idea that real wage rates do not rise as technical progress goes on. In fact they have risen (I know the stock answer is "imperialism" but that won't hold water.) but with rising productivity the nemesis of falling effective demand comes into play. Thus the "misery" turns up as mass unemployment i.e. Keynes theory is a necessary supplement to Marx.

Chapter 2--The New Political Economy and Russian State Capitalism

Because the U. S. S. R. was born out of proletarian revolution which overthrew Tsarism and took Russia out of the vortex of the world market, it seemed to have abrogated the law of value. Abolition of private property and the institution of planned production seemed indeed to herald a new social order.

However, with the institution of the Five Year Plan in 1928, it was clear that new tendencies were developing in Russia both because of the pressure of the world market and ^{changing} the production relations within the country. ~~which were changing.~~ Nevertheless, a whole school of neo-Marxists (Lange and Co.) arose outside of Russia with theories as to how prices could be set not according to value, but according to optimum need and conservation of scarce resources.

Meanwhile, in Russia itself production was regulated according to strict principles of cost accounting. At the same time a sharp class differentiation arose, based upon a division of function between the workers, on the one hand, and the managers of industry, millionaire kolkhozniki, political leaders and the intelligentsia in general, on the other hand. This division gained juridical acknowledgment in the Constitution of 1936 which legalized the existence of the intelligentsia as a special "group" in Soviet society. Insurmountable difficulties were created by the contradiction between this reality and economic thought which denied the existence of the law of value in a land where socialism was supposed to have been "irrevocably" established.

In 1943 this contradiction was resolved by admitting that the law of value functioned in Russia, although it was still considered to be "a land of socialism". This new political economy, expounded in the leading theoretical journal, Pod Znamenem Marxizma, (Under the Banner of Marxism), is a revision of Marxist theory which has always held that the law of value was characteristic only of capitalist society. The author will show how this revision arose from the pressing need to reconcile actual economic development with current economic theory. ^{has}

A - Russian State Capitalism: A Given Single Capitalist Society

The profound simplicity of Marx's method^{of} analysis of capitalist society reveals that, given the domination of the law of value, which is a law of the world market, a given society would remain capitalist, even if one or all of several conditions prevailed: (1) the exchanges between subdivisions of the social department producing means of production were effectuated directly, that is, without going through the market; (2) the relationship between the department producing means of production and ~~the~~^{that} producing means of consumption ~~was~~ was planned so that no ordinary commercial crises arose; and (3) even if the law of centralization of capital would reach its extreme limit, and capital ~~was~~^{was} concentrated in the hands "of a single capitalist or...a single capitalist society."

Precisely because Marx analyzed a pure capitalist society which has never historically existed, his analysis holds true for every capitalist society, but only for capitalist society. What Marx was primarily concerned with was not the abstraction, "a single capitalist society". His ~~concern~~^{concern} was with the fact that this extreme development would in no way change the law of motion of this society. He made this a point of analysis because by it could be seen more clearly the limitations of any individual capitalist society. The only basic distinction from the traditional capitalist society would be in the method of appropriation, not in the method or laws of production. Thus, for example, the distribution of profit would be achieved not through the devious route of competition, as is done under private capitalism, but through direct state bookkeeping.

On the other hand, the basic laws of capitalist production could not be circumvented. These are: (1) the law of value expressing itself through ~~the~~^(a) the increase of constant over variable capital, or (b)^{of} means of production over means of consumption; (2) the accumulation of capital on the one hand and accumulation of misery on the other; which expresses itself

(a) not only through the lowering of the standards of living of the masses, (b) but also through the creation of a reserve army of labor; and (3) the decline in the rate of profit which manifests itself (a) in crises, and (b) in imperialist expansion.

The dynamics of the Four Five Year Plans reveals that this law of motion of capitalist economy is characteristic of the Russian economy both in general and in ^{its} particular manifestations: (1) The relationship of the means of production to the means of consumption parallels that of the advanced capitalist lands: 60 per cent to 40 per cent. (2) Where the increase in production, as compared to Tsarist times, was, at the outbreak of war, some 600 per cent, the ~~standard of living~~ standard of living was lower than the level of Tsarist times, although the base of the ruling class was wider. (3) ~~the~~ unemployment, which has been officially abolished since 1930, clearly exists, although the unemployed army hides in the wide Russian country side, instead of revealing itself on bread-lines. The 1939 census revealed that 67.2 per cent of the total population was still rural, and that of the 114.6 million rural dwellers, 78.6 millions were peasants. Russia was backward and its productivity was low, but was it so low as to require an agricultural population so overwhelming ~~as~~ that to find a parallel for it in the United States, we would have to go back to a period before the American Civil War?

Here, again, the "abstract" principles of Marx help find the concrete truths. Just as labor power being paid at value is the supreme essence of the law of value, so the reserve army of labor is the supreme essence of the law of preponderance of constant over variable capital. The greater expansion of production, it is true, means an absolute increase in the laboring army, but that in no wise changes the fact that the law governing the attraction and repulsion of labor to capital is that of the decrease of living labor as compared to machines. It is for this reason that Marx calls the unemployed army "the absolute

What is this mean? See above

???

This is a foolish comparison U.S. was helped by immigrants and pushed to very high in USSR the population was then already

Do you mean that labor employed in manufacturing industry has been declining?

-29-

general law" of capitalist production. Russia has ^{not} been able to avoid this. Not only that, but we have in Russia what Marx in Volume III of Capital posed as the very extreme condition to which the law of value would lead: payment by family unit. In order to obtain sufficient surplus value to increase production, part of the agricultural population in Russia receives payment as family units and in fact all earning statistics are listed "per peasant household. Population statistics "per family unit", moreover, help hide child labor.

(4) The decline in the rate of profit brings about the deep crises, although the ordinary commercial crises ^{are} avoided through the statification of the economy. However, when the crises occur they are deeper even than in traditional capitalist lands. This was the case in 1932 ^{and} in 1937; and one is in ^{the} process now. It is true that the Russian brand of crises takes the form not merely of the liquidation of obsolete units of capital, but of the "liquidation" of its inefficient managers. But the law of production remains the same: the payment of the worker the minimum and the extraction from him of the maximum unpaid labor. This was given mathematical exactitude by the Chairman of the State Planning Commission when he enunciated the basis of the plan to be a 6.5 per cent rise in wages for every 12 per cent rise in labor productivity!

At the same ^{time} there is the ~~same~~ attempt ~~to~~ to avoid the consequences of this decline in the rate of profit through imperialist expansion. Whether that takes the form of direct incorporation of the conquered territories, as with Latvia, Lithuania and Esthonia, or with creating for itself a sphere of influence as in Eastern Europe; whether it takes the form of demanding reparation payments, or putting pressure for the establishment of joint stock companies, as the Sov-Rom Trade Agreement specifies--no basic distinctions exist between this method of Russian state capitalism and that of traditional capitalist imperialism.

501

Empiric data will ^{be given} to prove the validity of Marx's abstract postulate of a "single capitalist society."

This all seems to me to be very just nonsense, if you excuse me saying so. Are you complaining that USSR intends to grab a proportion of national income? Would that have surprised the way they had not done so?

Conclusion

The trend to statification of production is not limited to Russia, but envelopes most of Europe, appears in England, and is not absent in the United States. If economic thought is not to run a losing race against the course of history, it must grapple with the problems arising out of the statification of production and the need for full employment.

The interpretation of the crises of capitalism, under whatever form--private competitive, monopoly, or state-controlled--is in terms either of underconsumptionism, or of the decline in the rate of profit. On this key problem Marxists too are divided. Maurice Dobb sides with the orthodox Marxist conception of the declining rate of profit, and criticizes the underconsumptionist views of Varga, Corey and Sweezy.

Paul Sweezy recognizes that the weight of evidence is on the side of those who interpret crises as arising from "movements in the rate of surplus value and the composition of capital, with the value system intact." At the same time he proposes an "alternative solution" to the one posed by Marx. He seeks to formulate the Marxist theory of the falling rate of profit in such a way as to suggest that the fall can be interpreted not only in terms of the relationship of constant to variable capital, but in terms of "as yet unspecified forces tending to create a general shortage in the effective demand for commodities...at a satisfactory rate of profit." In this way, he hopes to find his "alternative solution".

The present writer will demonstrate that this new theory does not avoid the errors of Luxemburg, and that there can be no reconciliation of the theories of effective demand with the theory of the falling rate of profit. It will also be shown that this is not only a question of theory, but a question of the solution of the real problems facing the world in the wake of the second World War.

Appendix: Translation of unpublished works of Marx and Lenin.

I - The Direct Results of the Process of Production (abbreviated)

This was the part which Marx had originally intended as the conclusion to Volume I. It was found among his Archives and published in 1933 by the Marx-Engels Institute in Moscow.

The abbreviated form in which I mean to translate it is not, however, a mere summary. Marx has a right to be heard in his own words, and not have himself interpreted before ~~any~~ he has been heard. However, due to limitations of space-- the translation will be of pertinent sections only. Of the 100 pages, 20 will be translated.

II - Thomas Robert Malthus; also Accumulation of Capital and Crises, both from Theories of Surplus Value.

Approximately 50 pages.

III - The Theoretical Mistakes of the Narodnik Economists by V. I. Lenin.

Lenin's attack on Russian underconsumptionists, the finest Marxist exposition of Volume II of Capital, included as an appendix in the German editions of Capital.

Mentioned by Sweezy as of paramount importance to theoretical thought, but not translated by him.

This is the first chapter of Lenin's monumental work, The Development of Capitalism in Russia. The translator of this work into English, however, left out its opening theoretical chapter.

Approximately 15 pages.