

MARXIST POLITICAL ECONOMY

An Introductory Course

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Chapter I

Subject Matter of Political Economy

The Production is the basic of all activities of human beings. Production of means of existence is the basic character which differentiates man from animal. After being separated from the animal stage, man started to work on nature with the help of means of labour in order to fulfil his needs. **Production** was started after early man learned to make means of labour. Production is the process in which human labour is applied on nature or objects of labour through means of labour with the aim of producing material goods necessary for life. **Labour** and **production** were started when the early man began to make means of labour by grinding the stone tools(even though they were very crude). On the basis of production other social activities of man were developed. Political economy, is the science which studies the economic base of the human society.

Labour is the process in which, human being by using his mind and muscles produces material goods necessary for life. Labour made human beings as social beings. Not only that, it played a very important role in the development of manual and mental power of man. Because of this Engels said “*in a sense, it is labour which created man.*”

It is inevitable for humans to depend on and enter into relationship with others in the process of production. The relations in which humans entered with others in the process of production is the basis of human society.

Like philosophy, in political economy also class interests are expressed very strongly. Bourgeois political economy refuses to recognize that, the mode of production is transforming from one to another and takes an ahistorical position that capitalist system is eternal. It argues that, to reject this eternity of capitalist mode of production (social system) means rejecting the very existence of human society. It conceals the exploitation of surplus value and tries to portray capitalist system of production as the just system. On the contrary, Marxist political economy, which represents the interest of the working class recognizes that the mode of production is under continuous motion, chang-

ing and progressing from one to another. By understanding the laws of motion of the mode of production, it studies the mode of production in order to change the existing mode of production consciously. Marxist political economy proves that capitalist system means wage slavery. It exposes the exploitation of surplus value by the bourgeoisie.

The contradiction between Productive forces and Production Relations is the motive force of Society

From Primitive Communist Society to the present capitalist society, human society has been progressing through various stages. We can say, that the stages in the history of society are stages in the development of the mode of production. Human society has been developing through different modes of production in accordance with the stage of development of society. Therefore, we can say that the history of human society is the history of modes of production. Then, what is that acts as the motive force of human history?

The contradiction between the two aspects of a mode of production—productive forces and production relations is the motive force for human society. Society progresses through various stages because of the struggle between these opposites.

Productive forces:

Production itself is a struggle that man wages against nature. Production means the transformation of natural resources into material goods for human needs. Grains grown by peasants, pots made by a potter, cloth woven by a mill worker or production of locomotives or rockets—all are natural resources transformed into material goods to fulfil the needs of man. All forces used by man for the purpose of production are productive forces.

Productive forces can be divided into two. (1) Means of production and (2) Human Labour. Human labour means toilers or the working people (peasants, workers, artisans). With the help of means of production the toilers produce material goods by exerting their labour.

Means of Production:

Means of production are **material aspect** in productive forces.

Land, mines, forests, raw material, plough, axe, loom, machines etc., are means of production-the material aspects of production. Out of these materials, plough, axe, loom, machines are **means of labour**; and land, mines, forests, raw materials are **Objects of labour**.

Means of production = Means of labour + Objects of labour

Objects of labour are transformed into material goods by applying labour by the labourers with the help of means of labour. That means labourers work with the help of means of labour.

Potter's wheel is a means of labour. Clay is an object of labour. Labour (potter) with the help of potter's wheel (means of labour) works on clay (object of labour) and transforms it into a pot. Thread is transformed into cloth by the labour of a weaver with the help of a loom. Also, a peasant with the help of labour implement like plough, ox, axe, spade works on land-the object of labour, and gets the produce.

Human labour, means of production (means of labour + objects of labour) both are necessary to produce any useful object. In the absence of any one of these, production cannot be carried out. That means material aspect and human aspect of the productive forces ,both are necessary for production.

Productive forces = Means of production + Human labour or

Productive forces = [Objects of labour + Means of labour] + Human labour

Production Relations:

Productive forces represent one aspect of mode of production. The relations between people who participate in the process of production are called as **production relations** or **economic relations**. It is true that production takes place only with productive forces, but we must keep in mind that productive forces are not in operation with out the relations among the people who participate in the process of production. In any society, under any stage of development, productive forces operate and progress only through definite production relations. Productive forces and production relations are not independent. They are two aspects of a mode of production.

Production relations and Ownership of means of production:

What determines the character of production relations? In any society, ownership of the means of production determines the character of production relations. The system of ownership of the landlords over means of production(land) is the reason for the production relation of landlord-peasant. The capitalist system of ownership is the reason for capitalist- worker relations of production. Collective ownership over means of production is the reason for collective relations of production.

In a particular production relation, the position of each individual is determined by the relationship of that individual with that of the means of production. Under particular relations of productions based on the system of ownership, the position of each individual is not determined by the wishes of that individual. For example, let us take the relations of production of capitalist-worker. Who is a capitalist and who is a worker is determined by who owns the means of production and who does not. The owner of the means of production becomes the capitalist and who does not own any means of production and sells labour power becomes the worker. That is, who should play what role in the process of production and what sort of relationship they mutually enter into, is determined by the system of ownership over the means of production.

The distribution of products, produced under particular relations of production, is also decided on the basis of the system of ownership of means of production. The share of each individual (share of capitalist and worker or share of landlord and peasant) is decided by the system of ownership of the means of production.

We must study and understand three aspects in the relation of production. They are:

1. System of ownership over means of production.
2. The different role played by each individual and mutual relationship among themselves in the process of production.
3. Method of distribution of product.

On the whole, relations of production determine the character of the mode of production. A change in production relations means a total change in the mode of production, which forms the base of society.

Therefore, we can say, **history of human society is also the history of production relations**. Class relations are in the final analysis production relations. Therefore, Marx said, hither to the history of man is the history of class struggle.

Productive Forces and Production Relations: Two Opposites of mode of production

There is not only unity but also struggle between productive forces and production relations. These are the two opposite aspects of a mode of production. It is only because of the struggle between these two opposites that the mode of production advances from one stage to another. Society progresses from one stage to another. That is the reason why the contradiction between the productive forces and production relations is considered as the motive force of society.

Unlike the production relations, the productive forces are in continuous motion and thus they change and progress continuously. Particularly the means of labour are very active. With the arrival of new means of labour productive forces as a whole develop further. Compared with productive forces, production relations remain relatively stable. They remain stable through out a particular stage of society. With the establishment of new relations of production corresponding to the stage of development the productive forces get impetus for further development. But the production relations do not undergo any qualitative change through out that stage of society. With the development of productive forces to a certain level contradiction between productive forces, which are developing continuously and production relations, which are relatively stable, arises. Production relations, conducive for the development of productive forces to a particular stage, now become a hurdle for their further development. A situation is created within the frame work of the existing production relations, where by it is impossible for the productive forces to develop further. As a result of this, in place of the old production relation, new production relations conducive for the development of productive forces are established. Only through a social revolution new production relations are established, because the social forces representing the old production relations oppose a change in the production relations. The new social forces have to destroy the

old production relations by force and establish new production relation. The new production relations help the productive forces to develop further. But the contradiction between the productive forces and production relations will not come to an end even though new production relations are established. After sometimes, this new production relations will become a hurdle for the further development of productive forces. Again, the society enters into a period of social revolution.

Due to the revolution took place in the economic base, the society as a whole, advances further to a new stage. The whole superstructure also undergoes a transformation.

This process of social development was brilliantly explained by Marx in this way:

“In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the development of their material forces of production. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. It is not the consciousness of men that determines their existence, but their social existence that determines their consciousness. At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production or - this merely expresses the same thing in legal terms - with the property relations within the framework of which they have operated hitherto. From forms of development of the productive forces these relations turn into their fetters. Then begins an era of social revolution. The changes in the economic foundation lead sooner or later to the transformation of the whole immense superstructure.” (Marx, A contribution to the Critique of Political Economy, pp.20 -21)

Base and Super structure: Although the productive activity is the most primary and basic activity of all social activities of man, it is not everything. Non-economic social activities like political, moral, religious, philosophical, cultural, aesthetic and literary also play an important role. All these are called as superstructure. This superstruc-

ture is formed on the economic basis, i.e., mode of production. The mode of production and the superstructure based on this economic base together constitute socio-economic formation.

The superstructure, although formed on the basis of the economic base, contributes to the strengthening of the base and also protects it. But we must not forget that the relationship between the base and the superstructure is dialectical. When we say that the superstructure formed on the economic base it does not mean that it plays a passive role in the process of social development. It continuously interacts and influences the base. Economic determinism negates the dialectical relationship between the base and the super structure. Bourgeois intellectuals to mount attack on Marxism vulgarise it as economic determinism.

When the old production relations become fetters for the development of society (development of productive forces) The superstructure which is formed on the basis of the old mode of production, plays a reactionary role. The struggle for destruction of the obsolete production relations is also a struggle against the obsolete superstructure. Along with the new production relations a new superstructure is also developed.

Marxist political economy is a historical science. It studies various stages of the historical development of society from its very early stage till today. It analyses the economic laws of motion behind the process of historical development. It becomes a weapon in the hands of the working class in its conscious efforts to transform society. That is why it is a revolutionary science. Political economy constitutes the basis for the political line of the working class party. Because of this, Marxist teachers paid special importance in the study of political economy.

Bourgeois economists consider that the study of material wealth alone is the subject matter of political economy. They forget the production relations without which production of material wealth is not possible. By doing so, they try to conceal the class contradiction of bourgeois society. Contrary to them, Marxist political economy studies the relations of social production or economic relations among the people. It explains the laws governing production and distribution of material wealth and the various historical stages of development of human society.

“Economics deals not with things but with relations between persons, and, in the last resort, between classes.” (Engels, cited in Shanghai Text Book, p.1)

Chapter II

Theory of Value

Objects produced for sale or exchange are called commodities. Marx considered the commodity as the living cell of the capitalist system. The commodity reflects all fundamental contradictions of capitalist society. That is why Marx began from the commodity in his analysis of capitalist society.

Commodity production began at the last stage of primitive communist society. We know that it developed further in slave and feudal societies gradually. Under capitalism commodity production became universal. Although commodity production existed in pre-capitalist societies, it did not become the primary mode of production of the society. Pre-capitalist modes of production are together called as **natural economy**. In those social systems various economic units themselves produced whatever was necessary for them. Production of commodities and its role was very much limited in those societies. (self sufficient economy of pre-British India and backward adivasi village economy, resembling primitive communist society-all belong to the natural economy).

Commodity production in pre-capitalist societies is primarily simple commodity production. Small producers working with their own means of production, employing their own labour primarily, producing in a small scale is called **simple commodity production**. Small peasants, potters, blacksmiths, weavers etc. are simple commodity producers.

Commodity production in a capitalist society is primarily capitalist commodity production. It is different from simple commodity production. **Capitalist commodity production** means, the capitalist, who owns means of production, buys the labour power of the worker, who does not own any means of production, and carries out large scale production. In capitalist production, the workers sell their labour power everyday to the capitalists and remain as wage slaves. It should be remembered that, capitalist commodity production was born and grew out of simple commodity production.

Marx explains the general laws of commodity production begin-

ning from simple commodity production. Therefore, we also follow the same method and start our study from theory of value under simple commodity production.

Today, exchange of commodity takes place in the form of selling and buying with the help of money. But the first form of exchange of commodities was the barter system. First, let us analyse the exchange of commodities under the barter system, and then proceed to the exchange with money.

Two characteristics of a commodity

Any thing, to become a commodity, must have two characteristics. (1) Use-value (2) Exchange-value.

Use-value: The quality of an object to satisfy a material need of humans is called use-value. Water has the quality to satisfy thirst. Food has the quality to satisfy hunger. That means that they have the quality of satisfying a human want or use-value.

Exchange-value: If an object can be exchanged with other useful objects then it has the quality exchange-value. When an object has exchange-value in addition to use-value, then it is called **commodity**. That is, it must be able to get another thing having use-value through exchange. Only then it becomes a commodity. Exchange value is also called as the value of the commodity. (To be more precise there is a difference between the two, which, we shall see later).

With out any doubt, grain produced by the peasant has the use-value. But, it cannot be called as a commodity if it is consumed by the peasant. This is because, object having only use value cannot become a commodity. It becomes a commodity only when it has exchange value (only when it is exchanged) too. When the peasant consumes the grains, he realises the use-value of the grain and it is not for exchange. Hence, it has no exchange-value. Grains consumed by the peasant are not a commodity. If the peasant keeps aside a part of the grains for exchange, then that part of the grains possess an exchange-value, and thus becomes a commodity.

When a commodity possesses exchange value it is understood that it has use value also (when a commodity is exchanged it means that it is useful for some one). Although, air, sun shine etc., have use value

and are very essential for the existence of man, they do not have an exchange value. Even the grains produced by the peasant but meant for his own consumption do not have exchange value.

Therefore, **object having only use value is not a commodity.** Those **objects having exchange value also (or objects produced for exchange) become commodities.** All commodities are essentially objects having use-value. Use value and exchange value are two contradictory aspects in the commodity. They have a diametrically opposite character.

Use Value	Exchange value
<p>1. It is identified based on its material quality. To satisfy thirst is the internal quality of water. It is completely based on its physical and chemical qualities. Grains, axe, cloth, etc. are also identified in the same way.</p> <p>2. To realise the use value of a commodity it must be consumed. To realise the use value of water it must be drunk. To realise the use value of food it must be eaten.</p> <p>3. There is no connection between use and the ownership of a commodity. Any body who use a commodity can realise its use value.</p> <p>4. Different kinds of goods contain different use values. One cannot be substituted for the other.</p>	<p>1. It is the external quality of a commodity. Exchange value of grains is not contained within those grains. But it is contained in the goods exchanged with the grains. So the exchange value of a commodity is not related with the physical parties of that commodity.</p> <p>2. To realise the exchange value of a commodity it must be exchanged and not be used. A pot, must be exchanged with some other commodity.</p> <p>3. The owner of the commodity gets the exchange value of that commodity.</p> <p>4. The exchange value of different kinds of commodities are the same. A chair can be exchanged with grains, axe, sickle, cloth etc. This is because, the exchange value expresses the amount of labour, common in all these commodities.</p>

Under what conditions does exchange take place? For the exchange of two commodities three conditions have to be fulfilled without exception.

They are:

- (1) For exchange to take place between two objects, they must have two different use values. Exchange takes place between objects containing different use values like grain and pot; axe and chair; salt and tamarind etc. Exchange between salt and salt, axe and axe is meaningless.
- (2) Owners of the objects to be exchanged must be different. If an axe and chair belong to the same owner, the question of exchange does not arise.
- (3) Exchange takes place in a definite quantitative ratio which equates the values of the two commodities. Let us look at this aspect in greater detail.

Is it possible to exchange one quintal of salt with one quintal of rice? No. The owner of the rice will not accept this sort of exchange. But why? Because the value of the commodities to be exchanged are not equal. One quintal of salt is equal to one quintal of rice by weight. But their values are not equal. The value of rice is more than the value of salt. In that case, how does exchange take place between these two commodities? This is possible only when the quantity of these commodities is brought into a ratio, whereby the value of these two are equal.

1 quintal rice	=	4 quintals salt
1 metre cloth	=	3 pots
1 chair	=	5 pairs of chappals
2 axes	=	1 sheep

Equality of values of commodities are essential for exchange.

Why are there differences in the value of commodities? (Why rice commands more value than that of salt?) What determines the value of a commodity? What is meant by value?

Value

Can we say that the use value of a commodity determines its value? That is, things which are more useful have more value and less useful have less value? If that is true, food grains should have more value than gold. But food grains, which are very essential for life, have very low value than that of gold. Then, air and sun rays, which are essential for our existence, do not have any value. Thus, the value of a commodity is not determined by its usefulness.

We know that, the price of goods will be less when its supply is more than its demand. Where as the price of goods will be more when the supply is less than its demand. Therefore, can we say that the value of goods is determined by its demand and supply? If it is true, in a situation where the supply and demand are even, the value of different commodities should be the same. Even when the supply and demand of gold and iron are equal the value of gold is more than that of iron. Therefore, the value of a commodity is not determined by supply and demand.

Then, what determines the value? Which quality is common in all commodities? The common quality is that they are produced by human labour. The amount of labour spent to produce different kinds of commodities is the reason for the difference in their values. (The amount of labour to produce one quintal of rice is more than what is required to produce one quintal of salt). Thus, the value of a commodity is determined by the amount of labour spent to produce that commodity. If we examine how natural things which are freely available gain in value, it can be understood that the source of value is labour. Sand does not have any value when it remains in the riverbed. When it was brought out by applying labour it gets value. Labour is the source of all material wealth (value).

Value-Exchange value: Strictly speaking, value and exchange value are not one and the same. Value means the amount of labour spent to produce that commodity by the producer. We cannot get back the labour which is already spent. But that labour is transformed in the form of a commodity. If the producer wants to realise the value of the commodity it must be exchanged. When it is exchanged the producer

realises the amount of labour he has spent in the form of another commodity, in the form of exchange value. Thus, **exchange value is called as the material vehicle of the value.** Let us see the relationship between value and exchange value through an example.

Let us consider the value of an axe is six hour labour time. The labour, which is considered as value, is already spent. It is impossible to get back that labour. But we have the axe which was produced with those six hours of labour. That means, the six hours of labour or value is transformed into an axe. The axe of blacksmith can be exchanged with a pair of chappals (which also contains six hours of labour time) , and thus he gets back another commodity which is equivalent to the axe. That means, he realises the value of the axe in the form of exchange value. Value is abstract. It is always expressed in the form of exchange value (i.e., in the form of another commodity or money). Thus exchange value is called as the material vehicle of value.

Labour - Value

Concrete Labour: Different types of labour is necessary to create different use values. The work of a blacksmith is a particular type of labour creating a particular use value. Weaving is a particular type of work creating a particular type of use value, the cloth. The term labour itself denotes the concrete labour useful to produce a particular thing or use value. pottery, blacksmithy, weaving etc. are all various types of concrete labour and they produce definite useful objects. The skill and implements necessary to work is different for each of such labour. Therefore, concrete labour is necessary to produce a particular thing.

Abstract Labour: Peasant, potter, weaver, blacksmith and such other are all labourers. Labour is the common quality existing in different types of concrete labour. The peasant, potter, weaver, blacksmith etc., are all engaged in production by using their mental and manual power. Here, we identify only the common quantity existing in different types of concrete labour. This common labour determines the value of a commodity. The owners of the commodities while exchanging them compare this quantity of common labour necessary to produce the commodities.

“ Tailoring and weaving, though qualitatively different productive

activities, are each a productive expenditure of human brains, nerves and muscles, and in this sense are human labour. But the value of commodity represents human labour in the abstract, the expenditure of human labour in general.” (Marx, Capital. Vol. I. P-51)

From this it is clear that labour has two fold nature, concrete and general (or abstract). Concrete labour creates use value of a commodity. Whereas, general or abstract labour creates value or exchange value of a commodity. The two contradictory aspects in a commodity is the outcome of a dual nature-concrete and abstract- of labour.

“On the one hand all labour is, speaking physiologically, an expenditure of human labour power, and in its character of identical abstract human labour, it creates and forms the values 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 values” (Marx, Capital. Vol. I. P-54).

Value expresses Social relations:

Commodity production takes place under the conditions of private ownership of means of production and developed division of labour.

Commodity production was begun for the first time in primitive communist society with the development of the division of labour and private property. Due to a division of labour, producers specialising in a particular type of production like, hunting, agriculture, animal husbandry, fishing, came into existence. By this, we should not assume that division of labour is the reason for commodity production. This is because before the development of private property production was still collective despite the division of labour. Production was social, whoever produced and whatever they produced. It was distributed to all members of society. Later, with the development of private ownership over the means of production (private property) production also became private or individual. Producers became owners of the product. When the producers started to exchange their own products with the products of other owners, production itself was transformed into commodity production. In the process of exchange the production carried out individually become part of social production. Based on the equal

exchange of value the necessities of all the members of society are fulfilled. Superficially, it appears that exchange of commodities is the exchange between value in its magnitude. Actually it manifests the social relationship between the two producers or owners of commodities.

A peasant must exchange his grain with a potter, weaver, blacksmith to satisfy his needs. It is the same for a potter, weaver and other producers. Only through exchange of commodities they fulfil their needs of life. They are owners of their products because production was carried out individually. But they all produced for the society. Production takes place individually (under private ownership), but it is consumed by the society.

This contradiction is resolved through exchange. In the process of exchange all products of individual producers become the products of society and all individual labour becomes social labour. Total value of these commodities express one part of social labour. An individual producer gets a share from the products, produced by social labour, equivalent to the value of his commodity, (produced by his individual labour) through exchange between equal values. Through this exchange the needs of all members of the society is satisfied. In the process of exchange these individual producers are all brought into a relationship with one another.

Thus, value is not just a quantitative ratio or relationship of two commodities under exchange. It also manifests the social relationship between individual producers or owners of the commodities. Marx primarily concentrated on this aspect of social relations which appears as the relationship between commodities. The analysis of value based on the “labour theory of value” by bourgeois classical economists failed completely to identify these social relations behind value.

Measuring the magnitude of value

Value is the magnitude of labour spent to produce a commodity. Magnitude of labour is measured by labour time (in hours). To calculate the value of a commodity, we must measure the magnitude of labour to produce that commodity. The labour time taken for transforming the raw materials into finished goods, the value (embodied labour) contained in the raw materials, and wear out of means of labour should

be calculated. The sum total of these three is the value of the commodity. Raw materials are used completely in the process of production. They transfer their value (or the labour time taken to produce them) completely into the commodity. The means of labour wears out in the process of production, thereby lose their value. This loss of value is added to the value of the commodity.

$$\begin{aligned}
 \text{Value of commodity} &= \text{Labour time taken to transform raw materials into commodity} \\
 &+ \\
 &\text{Labour time contained in the raw material} \\
 &+ \\
 &\text{The value added to the commodity due to wear out of means of labour during production.}
 \end{aligned}$$

For example, let us consider that the labour time required to make a saree out of thread in 10 hours. The labour time contained in the raw materials is 8 hours. The value of labour implements are 200 hours and it completely lose its value or becomes useless after weaving 100 sarees. Then,

$$\begin{aligned}
 \text{Value of a saree} &= \text{Labour time taken to transform thread into saree} \\
 &+ \\
 &\text{Value of raw materials transferred into saree} \\
 &+ \\
 &\text{Value added due to the wear out of the means of labour}
 \end{aligned}$$

$$\text{Value of a saree} = 10 + 8 + 2 = 20 \text{ hours of labour time}$$

Socially Necessary labour time

The value of commodity is determined by the labour time taken to produce that commodity. Does it mean that it is the labour time taken by the individual producer to produce that commodity? No. There are differences among the producers producing same commodity regarding their skill, efficiency, activeness and methods of production. Accordingly there will be a difference in the labour time taken by them to produce the commodity.

Let us consider A, B, C are three individual potters, producing a

particular type of pot. A takes 5 hours, B takes 4 hours and C takes 3 hours labour time to produce that. If the value of the pot is determined based on the individual labour time then there will be three values for the same product. In addition, the pot produced by the inefficient, lazy producer will be considered having more value than the others.

Therefore, the value of a commodity is not determined by the labour time taken by any one individual producer, but by socially necessary labour time. Marx defined socially necessary labour as:-

“The labour time socially necessary is that under normal condition of production, the labour time necessary to produce an article, with the average degree of skill and intensity prevalent at that time.” (ibid., p-46).

From the above mentioned example, if producer B is working with an average level of labour skill and intensity, then, socially necessary labour time to produce a pot will be 4 hours. The value of pots produced by producers A and C will also be considered as 4 hours. (The value of a particular commodity is fixed at a particular period). With the better methods of production, more active and skilled than the average, producer C is able to produce the same pot in 3 hours. Since, socially necessary labour time is 4 hours to produce a pot his pot also gets the value of 4 hours labour time. He can exchange his pot with any other commodity containing 4 hours labour time. That means, the society recognises 3 hours labour time of C as 4 hours.

Even though, producer A spend 5 hours labour time to produce a pot society recognises it as only 4 hours labour time.

Socially necessary labour time is determined based on the conditions and methods of production mainly being prevailed in a specific period for the production of a particular commodity. These aspects, which determine the socially necessary labour time, will change with the development of productive forces. As a result of this, socially necessary labour time also changes. By introducing new methods of production and new means of labour, labour productivity increases; the labour time necessary for production of that commodity decreases. New methods of production and labour implements are introduced by few commodity producers in the beginning and later it is followed by

others. Thus, sooner or later the new methods of production and means of labour become the main trend of production taken as a whole. These conditions then determine the socially necessary labour time. Accordingly, socially necessary labour time decreases. **With the development of productive forces, labour productivity increases and socially necessary labour time or value decreases.**

Skilled and unskilled labour

Human labour can be divided into skilled and unskilled labour. Labour without any specialised training is called unskilled or simple labour. Labour with some specialised training and skill is called skilled labour or complex labour. Skilled labour can create more value than unskilled labour in a definite time. Labour productivity of skilled labour is more than that of unskilled labour.

Does the theory of value ignore that labour is divided into skilled and unskilled labour? No, on the contrary it converts skilled labour time into unskilled labour time while calculating value. By computing the productivity of skilled and unskilled labourers for the production of a particular commodity or for a particular process of production and according to the ratio of the productivity we can convert skilled labour into unskilled labour. That means, value is calculated in terms of unskilled labour.

“Skilled labour counts only as simple labour intensified, or rather as multiplied simple labour, a given quantity of skilled labour being considered equal to a greater quantity of simple labour.” (Ibid. p. 51)

“The different proportions in which different sorts of labour are reduced to unskilled labour as their standard, are established by a process that goes on behind the backs of producers, and, consequently, appear to be fixed by custom.” (Ibid. P.52)

The conversion of skilled labour into unskilled labour in the process of exchange is taking place spontaneously. In order to analyse how skilled labour is converted into unskilled labour, Marx began his analysis with the assumption that the labour of the society as a whole is unskilled labour.

“For simplicity’s sake we shall henceforth account every kind of labour to be unskilled, simple labour, by this we do no more than save

ourselves the trouble of making the reduction.” (Ibid. p-52)

Process of historical development of exchange: forms of value

So far we have analysed the exchange of commodity in the form of barter system, that is, exchange of one commodity with another commodity. But today the exchange of commodities takes place in the form of money. Money is the final form of value. Money was discovered to facilitate exchange of commodities. To understand the role of money in the exchange of commodities we have to analyse the process of development of exchange.

Surplus production was developed in the last stage of primitive communist society due to the development of productive forces. Tribes after fulfilling their needs exchanged the remaining things (hides, grains, weapons, etc.,) with other tribes. This process gradually developed into exchange of commodities.

Relative form of value: Value of a commodity is expressed in the form of exchange value, i.e., in the form of another commodity. The value of a commodity expressed in the form of use value of another commodity is called as **relative form of value**. The commodity which expresses the value is called as **equivalent form of value**.

One axe = 2 yards of cloth

In the above example the value of an axe is expressed in the form of cloth. That is, the value of axe is expressed in relative form of value. The cloth expressed the exchange value of the axe, i.e., cloth is the equivalent form of value.

Development of forms of value

Elementary form of value: we must remember that commodity production was not started consciously. Only surplus things were exchanged in the beginning. Those things were not produced for the purpose of exchange. They were exchanged just because they were in a surplus. Exchange was not done on the basis of equal value. In the beginning exchange was done accidentally. The commodities exchange did not reflect the exact magnitude of value. This sort of expression of

value is called as elementary form of value or accidental form of value. This type of accidental form of value was sufficient for the elementary level of commodity production in those days. Relative form of value in its elementary form, has only one accidental equivalent thing.

One axe = Two yards of cloth

But it is inevitable that the elementary or accidental form functions as equivalent of value at that stage. In the course of time, when commodity production was carried out consciously, the repeated exchange of commodities ultimately lead to the stabilisation of exchange based on value.

Expanded form of values: The separation of agriculture and animal husbandry was the first major social division of labour. After this division cattle and grains also became exchangeable goods. The number of goods that were exchanged increased. At this stage, the accidental form of value was insufficient, thus, it acquired an expanded form. When the value of a commodity is able to express all forms of commodities that can be exchanged, that form of value is called as total or expanded form of value. That is, the relative form of value of a commodity is expressed in the form of various equivalent things.

50 kgs of grains

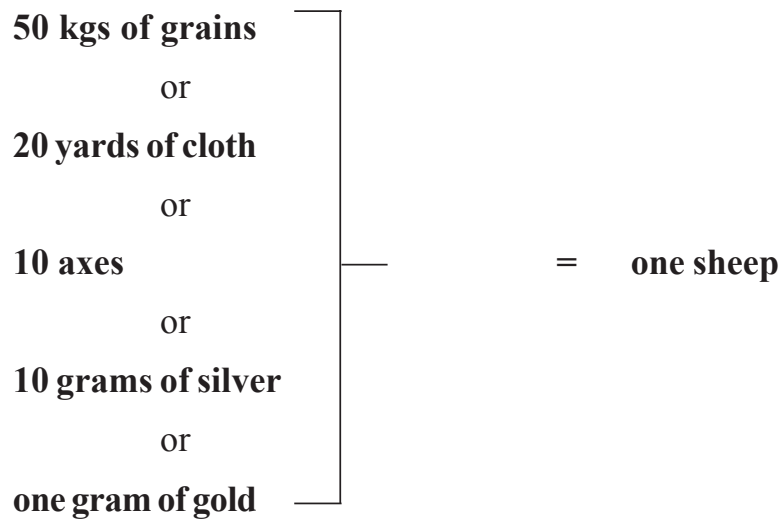
or

One sheep = 20 yards cloth

or

10 axes

In the process of repeated exchange, the commodity which could measure the value of all other commodities, became the means of measurement of value of all other commodities. It manifests the value of all other commodities. Such a commodity is called universal equivalent. Cattle, grains, metals, cloth, salt, wool have functioned as universal equivalent things in different regions. The value which manifests value of other commodities in the form of universal equivalent is called universal form of value.



Value in its universal form, manifests relative form of value of all other commodities in one single commodity, which is an **universal equivalent**. That is, all commodities manifest their value equivalent to that of the value of universal equivalent commodity. Thus, that universal equivalent became a means of measurement of value. With the arrival of an universal equivalent exchange was changed into two stages selling and buying. Under barter system of exchange selling also meant buying and buying also meant selling. Under the barter system exchange took place in one single transaction. With the arrival of universal equivalent, the producer had to exchange (sell) his commodity with an universal equivalent, and then exchange (buy) the universal equivalent with other commodities. Here, exchange is complete in two transactions. Thus, **the universal equivalent is not only a measure of value but also a means of exchange.**

With the division of exchange into two stages - selling and buying, the link between these two is snapped. Now, the commodity producers is not under any compulsion to buy something with the exchange value which he got by selling his commodity. It can be accumulated.

Money form of value: With the growth in production and exchange the need for a single universal equivalent arose. The existence of many goods as universal equivalents, became a hurdle for commodity exchange. With the birth of gold as the universal equivalent money form of value began

50 kgs of grains		=	1 gram of gold
or			
20 yards of cloth			
or			
10 axes			
or			
1 sheep			
or			
10 grams of silver			

After the second major social division of labour separation of agriculture and handicrafts-money form of value was evolved. Gold and silver, due to their specific characteristics (homogeneity, divisible into a very small quantity, durability, higher value in smaller quantity, etc.) stabilised as money (currency). After its introduction the value of commodities were measured by money.

Functions of money

The character of money is expressed through its functions. There are five functions they are : - 1. Measure of value 2. Means of exchange 3. Means of accumulation or hoarding 4. Means of payment 5. Universal money.

1. Measure of Value: The primary function of money is measure of value. To measure the value of commodities, money should have its own value. The value of a commodity is measured by another commodity having its own value.

The money which functions as the measure of value is conceptual money. When we calculate value in the form of money we need not have money in our hand. For example one bag of grain = one gram of gold means, the socially necessary labour time, to produce one bag of grain is equal to produce one gram of gold.

2. Means of exchange: The second function of money is that it is a means of exchange. It is also called as means of circulation of commodities. Circulation of commodities means exchange of commodities

with the help of money. Under barter system,

Commodity = commodity

With the arrival of money in the process of exchange of commodities, it became

commodity = money = commodity

Here, money functions as means of circulation of commodities.

Earlier, gold and silver pieces of different sizes and weights were used as money. Later coins occupied that position. Coins were nothing but silver and gold pieces are issued according to the stipulated shapes, purity and weights under the direction of the state.

3. Means of accumulation or hoarding: As the relationship between money and commodity developed, money has become the symbol of social wealth. In the period when natural economy predominated, food grains, cloth, silk and such other things were accumulated as wealth. After the development of money relations among commodities money (gold and silver) was accumulated as wealth. The owners of money temporarily removed it from circulation and hoarded it.

4. Means of payment: With the development of production and exchange of commodities, credit transactions also developed rapidly. Credit transactions were repaid in money form. But before that payment the exchange of commodities was completed. Here, money functions as a means of payment and not as a means of exchange. Money became the means of payment for payments such as rent, interest, taxes, etc. also.

5. Universal money: When the exchange of commodities crossed national boundaries international trade developed. Now money played a new role, i.e., it functioned as universal money. Only gold and silver were able to function as universal money.

As commodities are bought and sold in the world market it functioned as a means of payments in world trade, universal money is also used in purchase of gold and silver, for export of capital, in arms trade etc.

Above said five functions of money are linked with one another. They are different manifestations of the nature of money. They express

the different roles assumed by universal equivalent in its historical development.

Gradually, minting of coins at a specific magnitude has come into operations. As exchange developed further copper coins with smaller denomination came into circulation. All these coins, gold, silver and copper, have their own value. Each coin can exchange with other commodities equivalent to its own value. For example, one gold coin = 10 bags of grains means, socially necessary labour time to produce one gold coin and socially necessary labour time to produce 10 bags of grains are equal. **The law of equivalent value has not been withdrawn because value acquired the form of money. Exchange is carried out on the basis of equivalent value even after introduction of money.**

In course of time, paper money occupied the place of gold, silver coins. But paper money is not real money. It does not have value of its own. Paper money is only a symbol of real money - gold or silver - and has occupied the position of real money and performs the same functions as real money does. Thus, paper money always represent real money and performs its functions. Since real money continues to be in circulation, even after introducing paper money, exchange continues to take place on the basis of law of equivalent of value.

One rupee of paper money = 10 bags of grains, means

One rupee of gold money = one rupee of paper money = 10 bags of grain. That is, even after paper money entered circulation, the value of money is expressed only through gold.

When the currency notes were introduced first they were convertible into gold or silver whenever it was required. This assurance was printed on the currency notes. Only with that assurance paper money got recognised and used for exchange. As the transactions with paper money increased it is forgotten that paper money only represents real money (gold and silver), and it is considered to have its own value.

From World War I bourgeois governments cancelled the gold standard system. Thereby, the relationship between paper money and real money was snapped and the currency notes no more represents gold or silver. The assurance to give gold when currency notes are remitted has

been withdrawn. Printing of currency notes, as per the wishes of these governments started. When the circulation of paper money exceeds the requirements of the circulation of commodities, the prices of all commodities will rise. And this is called inflation. Bourgeois governments intentionally release more paper money for circulation and maintain a certain level inflation.

Amount of money in circulation: The primary function of money is to serve as a means of exchange. Therefore, the total sum of money under circulation is determined primarily by the total value of all commodities in circulation. Since exchange takes place in the form of money, the prices of all commodities under circulation determines the total amount of money to be in circulation. But money is in transaction for many times. (One rupee is used for many transactions changing many hands). The number of transactions carried out by money in a specific period is called as velocity of money. As the velocity of money increases the amount of money under circulation decreases.

$$\text{Total quantity of money necessary for the circulation of commodities} = \frac{\text{Price of all commodities}}{\text{Velocity of money circulation}}$$

For example, let us consider the price of all commodities to be in circulation in a year as Rs.10,000 crores. Velocity of money, annually, is 50. Then,

$$\text{Total quantity of money necessary for the circulation of commodities} = \frac{10,000}{50} = 200 \text{ crores}$$

Value and price:

Monetary form of expression of value is the price. It is necessary to understand the concept of value and price.

Value is the labour time spent in the process of commodity production. Value of a commodities created in the process of production. Only after completing this process the commodity enters into the process of exchange. That is the value of a commodity is already decided

before it reaches the market. There is no connection between determination of value and exchange or market.

A producer in order to realise the value of the commodity exchanges it with other commodities. The commodity enters the process of exchange or market, after its value is determined. But the market conditions, supply and demand influence the future of the commodity. Whether the commodity is sold, and for what price, is determined by the market.

If the supply and demand are equal the producer can realise the full value of his commodity. Under such conditions the value and price both are equal. In case the supply is more than its demand in the market, the price of a commodity decreases than its value. Thereby the producer of a commodity could not have realised the full value of his commodity. In case the supply is less than its demand, the price of the commodity increases, and the owner of the commodity gets more exchange value than its value. Value is created in the process of production and there will be no influence of market condition on that. Price came into being in the process of exchange. Prices are influenced by market conditions. The price and the value of the commodity will be either equal or more or less in accordance with the supply and demand of that commodity. However, the price always rotates around the value.

Law of value is the economic law of commodity production

So far, we have seen the theory of value under simple commodity production. But we must understand that law of value is the economic law of commodity production and exchange. Law of value is the guiding principle of commodity production under any social system.

Law of value tells us that the value of a commodity is determined by the socially necessary labour time and exchange takes place on the basis of equality of values.

In a situation where production is carried out by individual producers, it is the law of value that determines what is to be produced and how much is to be produced and how the labour should be allocated between various sectors of production and it attains equilibrium be-

tween various sectors of production. But it attains this only through conditions of competition and anarchy in production.

Under private ownership competition among producers and anarchy in production is inevitable. Every producer wants to produce more, sell more and gain more profit. This leads to acute competition among the producers.

Since production is carried out individually no body can have an assessment about the total requirement of each commodity for the society. The producers, keeping profit as the only aim, blindly engage in production. As a result of this unsystematic production equilibrium between supply and demand, and between different sectors of production collapse resulting in anarchy in production.

Under the influence of supply and demand the price of a commodity will be more or less than that of the value of that commodity. When the price of some commodities is more than their value producers increase the production of those commodities with the aim of achieving more profit. As a result of this production of those commodities crosses the limits of demand. On the other hand production of commodities, whose price is lesser than that of their value, is decreased, causing shortage in supply of that commodity. As this process is repeated many times, by producing more or less than what is needed, the necessary quantum of production in each sector is arrived at spontaneously. That is, the level of production is readjusted to society's demand. This partial systematisation is achieved through anarchy in production. In the process of achieving equality in exchange forcibly, the law of value systematises production also. It also determines the quantum of production in each sector and allocates labour to each sector. The law of value regulates and systematises commodity production through competition and anarchy. But this sort of systematisation is only temporary and anarchy is the permanent feature.

Marx said, equality of values is the objective law of exchange, and it is forcibly achieved by law of value.

“Since individual capitalism meet one another only as owners of commodities, and every one seeks to sell his commodity as clearly as possible (being apparently guided in the regulation of his production

by his own arbitrary will), the internal law enforces itself merely by means of their competition, by their mutual pressure upon each other, by means of which the various deviations are balanced. Only as an internal law, and from the point of view of the individual agent as a blind law, does the law of value exert its influence here and maintain the social equilibrium of production in the turmoil of its accidental fluctuation.” (capital. Vol. III p.1026)

In a society where commodities are mutually exchanged between the producers, theory of value becomes operational through competition.

Fetishism of commodities

The social relations between the producers in a society, where production is carried out individually, comes into light in the process of exchange. The process of exchange reveals the inter connection and mutual dependency of individual producers. But this social relation between producers is expressed in the form of relations between commodities. Social production relations are covered by relations between commodities. Both production and labour are social in nature. But it is carried out individually under the private ownership of means of production. But they have become part of social production in the process of exchange. The fact is that individual production and labour is only a part of social production and labour is exposed in the process of exchange. The producers imagine that the relationship among them is only the relationship between commodities.

After entering the process of exchange the fate of commodities is no more in the hands of producers. It is decided by the conditions in the market. Whether that commodity will be sold or not, and if so at what rate? These are decided by market conditions. When we say ‘ the fate of a commodity’ it means the fate of the producers. The commodities, made by the producers, decides the fate of the producers. Man who created the gods and goddesses, believe that they decide his fate. In the same way, the commodities created by the producers decides their fate. Marx called this as fetishism of commodities. Further he said,

“In the mist-enveloped regions of the religious world The production of the human brain appear as independent beings endowed

with life, and entering into relation both with one another and with the human race. So it is in the world of commodities with the products of men's hands. This I call the fetishism which attaches itself to the products of labour, as soon as they are produced as commodities and which is therefore inseparable from the production of commodities.

“This fetish character of the commodity world has its origin in the peculiar social character of the labour which produces commodities.

“As a general rule, articles of utility become commodities only because they are products of private individuals or groups of individuals who carry on their work independently of each other. The sum total of the labour of all these private individuals forms the aggregate labour of society. Since the producers do not come into contact with each other, the specific social character of each producers' labour does not show itself except in the act of exchange. In other words, the labour of the individual asserts itself as a part of the labour of society only through the relations which the act of exchange establishes directly between the products and indirectly, through them, between their producers. To the latter, therefore, the social relations between the labour of private individuals appear for what they are, i.e., not as the direct social relations of persons in their work, but rather as material relations of persons and social relations of things.” (Capital. Vol. I. pp. 83-84)

Chapter III

Capital - Surplus value - Wages

Class relations are the basis of capitalist mode of production. Capitalism is also an exploitative society where one man exploits another man. Under capitalist system exploitation of labour is undertaken in the form of exploitation of surplus value. Marx's "*Theory of surplus value*" exposes capitalist exploitation. Marx formulated his "*Theory of surplus value*" based on the "*Labour theory of value*".

For capitalist mode of production to come into operation, two conditions have to be fulfilled. 1. Money and means of production must be accumulated, in large quantities in the hands of a few, 2. large number of workers, without any means of production depending upon their labour power for their subsistence, free to sell their labour power.

Money as capital

The role played by money accumulated in the hands of a capitalist is very different from the role it played in simple commodity production. Under simple commodity production, the commodity producer in order to satisfy his needs, exchanges his commodity into money. Under simple commodity production money just plays the role of a mediator a means of exchange. The circulation of commodities under simple commodity production is

commodity – money – commodity

C – M – C

The transaction starts with a commodity and ends in a commodity.

Under capitalist production, the capitalist buys the means of production and labour power from the accumulated money and starts production. This production is not for his personal use. The products are sold in the market and changed into money. The capitalist transaction is,

Money – commodity – money

M – C – M

The capitalist first invests money then transforms it into a commodity, again the commodity is transformed into money. The whole transaction starts from money and ends in money. The simple commodity producer uses the money to buy other goods for his needs. The first commodity in his hands (grains) and commodity he buys (cloth) are qualitatively different. Where as under capitalist circulation, the money in his hands in the beginning and at the end are qualitatively the same. In that case, why does he engage in production at all?

Although, the money invested in the beginning and the money he gets at the end, after selling his products, qualitatively same, quantitatively they are different. The money he gets at the end is more than the money he invested. The money he invests at the beginning of the process of production is increased and it returns to his hands at the end. Thus, the capitalist produces the commodities by investing his money. Under capitalist production, money does not just play the role of a mediator, it also brings profit to the capitalist. (The extra money which the capitalist gets after selling his commodities is called profit.) Thus, money in the hands of capitalist becomes capital.

“The simple circulation of commodities - selling in order to buy - is a means of carrying out a purpose unconnected with circulation, namely, the appropriation of use values, the satisfaction of wants. The circulation of money as capital is, on the contrary, an end in itself, for the expansion of value takes place only within this constantly renewed movement. The circulation of capital has therefore no limits. Thus the conscious representative of this movement, the possessor of money, becomes a capitalist. His person, or rather his pocket, is the point from which the money starts and to which it returns. The expansion of value, which is the objective basis or main - spring of the circulation M-C-M, becomes his subjective aim, and it is only in so far as the appropriation of ever more and more wealth in the abstract becomes the sole motive of his operations that he functions as a capitalist, that is, as capital personified and endowed with consciousness and a will. Use values must therefore never be looked upon as the real aim of the capitalist; neither must the profit on any single transaction. The restless never-ending process of profit - making alone is what he aims at.” (Ibid. P. 169-170)

But how does a capitalist get more money than what he invested? What is the source of profit? We know that value is created only in the process of production. Therefore, we must search for the source of expanded value only in the process of production. The capitalist claims that the means of production enhances value, thus means of production is the source of profit. The capitalist buys the means of production (raw materials, machinery, etc.) by paying for its value. That means, the means of production have completed the process of production and entered the process of exchange. They have entered the market only after completing the process of creating the value. Undoubtedly, means of production is essential for production. But they can be exchanged only with values equivalent to its own. Only living labour, that engaged in the process of production can create the new value. It is true that the means of production contain human labour. But can it create value? When we say that the means of production contains labour we mean the labour already expended to produce there means of production. The labour contained in the means of production or in any other commodity is the expended labour or dead labour. Therefore, it is labour power which expands value in the process of production.

If the capitalist buys labour power by paying for its value, as he pays for other commodities, how does he manage to retain surplus value? We cannot get the answer unless we understand the particular characteristic of labour power. Now let us take a look at labour power as a commodity.

Labour power as commodity

The capitalist mode of production has the tendency to transform every thing in society into commodities. Above all, under capitalism labour power becomes a commodity. The capitalists buy labour power of the workers everyday as they buy raw materials and such other things. The capitalist mode of production means, the capitalist, as the owner of all means of production, buys the labour power of the worker, who has nothing but his labour power for his subsistence, and carries out production. Wherever capitalist production exists, there labour power inevitably becomes a commodity.

Labour power is the capacity of a worker to work. Labour power

is essential for production in any society. But only under the capitalist mode of production does it become a commodity (in slave society, the toilers (salves) themselves were commodities - not labour power). Under capitalism the workers sell their labour power everyday, because they do not have any other means of subsistence. The worker is freed from all means of production; he is 'free' to sell his labour power.

Value of labour power

We know that, the value of all commodities are determined by the socially necessary labour time to produce them. The value of labour power is also determined by socially necessary labour time for production and reproduction of labour power. If a worker should be in a position to work, then it is necessary for him to have minimum means of subsistence like food, clothes and shelter. The value of labour power consists of three aspects. 1. Value of minimum means of subsistence of the worker, 2. When the workers become old or die, in order to supply new work force in place of old one, the worker must maintain his family also. Thus, the minimum necessities for subsistence of the family also form one part of the value of the labour power and 3. Capitalist production requires that the workers must possess some skill acquired through education and training. Therefore that part is also included in the value of labour power. The socially necessary labour time to produce these three types of means of subsistence is the socially necessary labour time to produce labour power. In short, the value of minimum level of means of subsistence for the worker and for his family is the value of labour power. Marx described this as:

“ The value of labour power is determined, as in the case of every other commodity, by the labour time necessary for the production and consequently also the reproduction of this special article.

“.....Given the individual, the production of labour power consists in his reproduction of himself of his maintenance. Therefore the labour time requisite for the production of labour power reduces itself to that necessary for the production of those means of subsistence; in other words, the value of labour power is the value of the means of subsistence necessary for the maintenance of the labourer His means of subsistence must be sufficient to maintain him in his normal state as a labouring individual. His natural wants, such as food, clothing,

fuel and housing vary according to the climatic and other physical conditions of his country. On the other hand the number and extent of his so-called necessary wants are themselves the product of historical development and depend, therefore, to a great extent on the degree of civilization of a country.” (Ibid. p. 189-190).

Price of labour power: Price of labour power means, value of labour power in money form. The price of labour power is wages.

Specific character of labour power: Labour power is qualitatively different from all other commodities. It cannot be separated from its owner, the worker or toiler. **Labour Power bought as a commodity means that the labour power can be used for a particular period by the capitalist.** That is, the owner of labour power, the worker, is to exert his labour on the means of production, owned by the capitalist, for a definite period.

The value created by labour power in the process of production is more than its own value. That is, the value created by the worker is more than the value of the minimum means of subsistence necessary to produce and reproduce labour power. Only because of this does value expand in the process of production.

“Today, in a capitalist society labour power is a commodity like any other commodity. The capacity to create value is its special quality. It is the birth place of value. If it is used properly it can give birth to more value than its own. Under present conditions of production, the labour power of man, not only creating more value than its own, not only creating more value in one single day than the value it is sold; but with every new scientific discovery, with every new technological creation, surplus value increases and the necessary work time, which the worker gets as wages, in the work day decreases; on the other hand, in a work day the part that worker works freely for the capitalist increases.” (Capital.)

Surplus Value

Let us take the example of a textile mill to analyse surplus value. Let us consider that the capitalist buys all commodities, including labour power, at a price which is equal to its value and sells his commodities as per its value.

In that mill —

Value of the cloth produced in a day	=Rs. 1,00,000
Cost of raw materials (yarn, electricity, dye, etc.)	=Rs. 70,000
Wear out (per day){machinery, tools, factory building,etc}	=Rs. 10,000
Value of labour power (per day)	=Rs. 10
Number of worker	= 1,000
Work day of worker	= 10 hours

The cloth, worth one lakh rupees, is not completely created by labour power. It also includes the value transferred from the means of production. While the raw materials transfer their value, at once, the machineries and buildings transfer it through depreciation. To calculate the value created by labour power we have to separate the value transferred by means of production from the total value of cloth.

(in Rs.)

$$\begin{aligned}\text{Share of means of Production} &= \text{Value of raw materials} + \text{depreciation} \\ &= 70,000 + 10,000 = 80,000\end{aligned}$$

$$\text{Value created by labour power} = 1,00,000 - 80,000 = 20,000$$

$$\text{Value created by all workers} = 20,000$$

$$\text{Value created per worker} = \frac{20,000}{1,000} = 20$$

$$\begin{aligned}\text{Value created per worker per hour} &= \frac{\text{Value created by worker / day}}{\text{Work day}} \\ &= \frac{20}{10} = 2\end{aligned}$$

$$\text{Value of labour power of worker} = 10$$

$$\begin{aligned}\text{Surplus value} &= \text{Value created by labour power} - \text{Value of labour power} \\ &= 20 - 10 = 10\end{aligned}$$

$$\text{Labour time necessary to create the value of labour power} = 5 \text{ hours}$$

Necessary labour time - Surplus labour time

Since the worker is creating two rupees of value every hour he is able to create the value of his labour power in five hours. But he must work for another five hours and creates two rupees for every hour of work. But the capitalist appropriates the value created by labour power during surplus labour time.

The time taken to create the value equal to the value of labour power is called **necessary labour time** (in our example 5 hour). The capitalist pays for the value created during necessary labour time in the form of wages. During necessary labour time the worker works for himself, to satisfy the minimum means of subsistence. The work day of the worker does not end with necessary labour time. His working hour continues beyond necessary labour time (in our example 5 hours). The working hours beyond the necessary labour time is called surplus labour time. During surplus labour time also the worker creates the value of rupees two per hour. The value created during surplus labour time is called surplus value. (Surplus labour time 5 hours x Rs. 2 = Rs. Ten is the surplus value). But this value, created by the worker, is appropriated by the capitalist without paying anything to the worker. This appropriation is called exploitation of surplus value. Thus, during the surplus labour time the worker works for the capitalist.

Labour power - Labour:

The capitalist claims that, he bought the labour - not the labour power of the worker and in return pays the worker equal to the value created by the labour. This may appear to be correct. But buying or selling of labour is meaningless. If any commodity is to be sold it must already have its use value. When a worker enters the market he has the capacity to work or labour power. Only by utilising the labour power, i.e., by working, is value created. Since the worker is alienated from all means of production, he is unable to utilise his labour power for himself, and forced to sell it in the market. The owner of the means of production, the capitalist, buys the labour power. The owner of the labour power, the worker, works (utilises this labour power) on the means of production in the factory, owned by the capitalist, for a definite period. That means the capitalist buys the labour power to utilise it for a

definite period. That is why the capitalist tries to utilise the labour power, as much as possible. Thus, it is the labour power, and not labour that is being bought and sold as a commodity under capitalist production.

Wages that seemed to be paid for the day's work disguises the exploitation of surplus value. In pre-capitalist societies also, slave and feudal, exploitation of labour was there. But the exploitation of labour was open and obvious due to its mode of production. But under capitalism, due to the fetishism of commodities, the social relations are covered by the relationship between commodities. All commodities are exchanged as per their values. The capitalist creates an illusion that the value created by the labour power is completely paid as wages. **Exploitation of surplus value is the essence of capitalist mode of production. This essence is being disguised by the equality of values of commodities in exchange.** It may appear that the worker and the capitalist as the owners of their commodities occupy equal status. But this so-called equality only covers up the social relations between them - the worker and the capitalist - and the exploitation of surplus value, which is the basis of this social relation. Marx's theory of value describes value as a social relation and his theory of surplus value brought out the exploitation of surplus value in the name of exchange between equal values.

The aim of capitalist production is exploitation of surplus value. The capitalist exchanges or sells his commodity in order to appropriate surplus value. Thus, we can say that, surplus value governs capitalism as a whole.

Only in the process of production does the exploitation of the worker or the creation of surplus value take place. The capitalist appropriates this surplus value, created in the process of production, in the form of money through exchange. It means that the market conditions can influence the process of transformation of surplus value into money, but not the process of creation of surplus value.

Capital and Its Component Parts

What is meant by capital?

By analysing surplus value it becomes clear that the means of production which brings surplus value to the capitalist is capital. Then, can

it be said that capital means money and means of production. The bourgeois economists say exactly this. If we accept that the means of production to be capital it would amount to accepting that without capital human society will collapse, and hence conclude that exploitation of surplus value is inevitable. If this is not true then, what is meant by capital?

Capital is the best example for commodity fetishism. Superficially, capital may appear as means of production, but in its essence it is the social relation between the worker and capitalist. The means of production and money become capital in a historical situation where social relation between the worker and the capitalist exists. That is, the means of production and money have become the means to exploit surplus value. In primitive society also means of production were there, but they did not become capital because they were not the means of exploiting surplus value. In fact there was no exploitation of labour at that period. Under socialism the means of production, today in the hands of capitalist as capital, will be socialised. They will lose their existence as capital. That means under socialism the means of production will not be the means to exploit labour - Thus, the means of production and money exist as capital in a specific historic condition (under the production relations between worker - capitalist); have become means of exploitation of labour. Therefore, the essence of capital is the social relation between the worker and capitalist. Capital will disappear when this social relations disappear. Disappearance of capital does not mean disappearance of means of production. It's function as capital (means of exploitation of surplus value) will disappear.

What do the production relations of worker and capitalist show? It shows that the means of production and other means of subsistence are under the private ownership of the capitalist and the workers are pushed to a situation where they have nothing but their labour power and can subsist only by selling it to the capitalist.

Capital - Its Components:

On the basis of the role played by different components of capital in value careation, there are two parts in capital: 1. Constant Capital and 2. Variable Capital.

Constant Capital: We know that, the loss of value of raw material and machinery, tools etc., due to depreciation are transferred to the value of the commodity. Since all means of production are commodities, their value is determined during the process of production. We cannot increase the value of the means of production when they are engaged in the process of production. Their value remain constant. They transfer value, just equal to their own value to the produced commodity. Therefore, the money invested on the means of production or capital in the form of means of production is called constant capital

Variable capital: We know that the labour power expands the value in the process of production. The value of capital invested on labour power increases in the process of production. It does not remain same as the means of production. The capital invested on this component is called variable capital. The magnitude of surplus value is directly linked to the magnitude of variable capital.

Component parts of value of commodity:

The value of a commodity consists of constant capital (c), Variable Capital (v) and surplus value (s).

$$\begin{aligned} \text{Value of commodity} &= \text{constant capital} + \text{variable capital} + \text{surplus value} \\ &= c + v + s \end{aligned}$$

Rate of exploitation or rate of surplus value:

To understand the intensity of exploitation we have to calculate surplus value in comparison with variable capital, since it is variable capital which creates surplus value. So also, if we compare surplus labour time with necessary labour time we can get the rate of surplus value. Let Rate of Surplus Value as s^1 .

$$\text{Rate of Surplus value} = \frac{\text{Surplus value}}{\text{Variable Capital}} \times 100$$

$$s^1 = \frac{s}{v} \times 100 \quad \text{or}$$

$$\text{Rate of surplus value} = \frac{\text{Surplus labour time}}{\text{Necessary labour time}} \times 100$$

If we take the same example of textile mill, (in Rs.)

$$\text{Surplus value per day} = 10,000$$

$$\text{Variable capital} = 10,000$$

$$\text{Rate of surplus value } s^1 = \frac{10,000}{10,000} \times 100 = 100\%$$

$$s^1 = \frac{5}{5} \times 100 = 100\%$$

The rate of surplus value shows the intensity of exploitation. A increase in the rate of surplus value means increase in the intensity of exploitation.

The source of profit or surplus value is variable capital. But capitalist says that the source of profit (i.e. surplus value) is the total capital. He calculates the rate of profit in comparison with total capital invested. It is this profit rate that dictates the capitalist. We will discuss more about the rate of profit in fourth chapter.

$$\begin{aligned} \text{Rate of Profit} &= \frac{\text{Profit}}{\text{Constant capital} + \text{Variable capital}} \quad \text{or} \\ &= \frac{p}{c + v} \end{aligned}$$

Methods of intensification of exploitation

The capitalist always tries to increase the rate of surplus value. The methods adopted are 1. Absolute surplus value 2. Relative surplus value 3. Increasing the intensity of labour 4. Acquiring extra surplus value

There are two ways for a capitalist to increase the rate of surplus value.

1. Increasing surplus labour time by extending workday.
2. Increasing surplus labour time by decreasing necessary labour time.

Absolute surplus value

Appropriation of surplus value by increasing surplus labour time is called absolute surplus value.

For example,

Work day = 10 hour

5 hours necessary labour time	5 hours surplus labour time
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Value created by labour per hour = Rs. 2

Then, surplus value = 5 X 2 = Rs. 10

$$\begin{aligned} \text{Rate of surplus value} &= \frac{\text{Surplus labour time}}{\text{Necessary labour time}} \times 100 \\ &= \frac{5}{5} \times 100 = 100\% \quad \text{or} \end{aligned}$$

$$\begin{aligned} \text{Rate of surplus value} &= \frac{\text{Surplus value}}{\text{Variable capital}} \times 100 = \frac{s}{v} \times 100 \\ &= \frac{10}{10} \times 100 = 100\% \end{aligned}$$

If the workday is increased to 12 hours, then

5 hours necessary labour time	7 hours surplus labour time
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$$\text{Rate of surplus value} = \frac{\text{Surplus labour time}}{\text{Necessary labour time}} \times 100$$

$$= \frac{7}{5} \times 100 = 140 \% \quad \text{or}$$

$$[\text{Rate of surplus value}] S^1 = \frac{\text{Surplus value (s)} \quad 14}{\text{Variable capital (v)} \quad 10} = \frac{14}{10} \times 100 = 140\%$$

By increasing the surplus labour time and without altering the necessary labour time surplus value was increased (7 x 2 = Rs.14). The rate of surplus value as increased (140%). This method of appropriating surplus value by in extending surplus labour time is called as absolute surplus value.

Absolute surplus value is the principal form of surplus value. Not only for capitalist exploitation but for any form of labour exploitation it is essential that total labour time must be more than the necessary labour time Marx said:

“The prolongation of the working day beyond the point at which the labourer would have produced just an equivalent for the value of his labour power, and the appropriation of that surplus labour by capital, this is production of absolute surplus value. It forms the general ground work for the capitalist system” (Capital Vol. I. p. 477)

“If the labourer wants all his time to produce the necessary means of subsistence for himself and his race, he has no time left in which to work gratis for others. Without a certain degree of productiveness in his labour, he has no such superfluous time at his disposal; without such superfluous time, no surplus-labour and therefore no capitalists no slave-owners, no feudal lords, in one word, no class of large proprietors.” (Ibid. p. 479)

Appropriation of surplus labour of a labourer in the form of surplus-value is the specific feature of the capitalist society. Marx said:

“The capitalistic mode of production (essentially the production of surplus-value, the absorption of surplus labour), produces thus, with the extension of the working day, not only the deterioration of human labour power by robbing it of its normal, moral and physical, conditions of development and function. It produces also the premature exhaustion and death of this labour power itself. It extends the labourer’s

time of production during a given period by shortening his actual lifetime.” (Ibid. p. 253).

“Capital is dead labour, that, vampire-like, only lives by sucking living labour, and lives the more, the more labour it sucks. The time during which the labourer works, is the time during which the capitalist consumes the labour-power he has purchased of him.” (Ibid. p. 257).

The hunger for surplus value of a capitalist is insatiable. The greedy capitalist will try to extend the workday as much as possible. He wants to squeeze out two days or even more labour in a single day from the worker.

On the question of length of a workday a “protracted war” going on between the workers and the capitalists. Due to the heroic struggle of the international working class, today the capitalists are not able to increase the length of a workday. Even today the working hours of the unorganised workers, in a backward country like India, is 12-16 hours. Even in the industrial sector the labour laws are thrown to the winds and the workers are forced to work up to 12-14 hours a day. On the pretext that workers are voluntarily working overtime, the workers are forced to work for more hours. (In small and medium scale industries workers are forced to work for more hours compulsorily in the name of overtime without any extra wages). Since, labour intensity has increased actually, the international working class movement in the 1920s put forward a demand for 7 hours working day. But even to day in the countries of Asia, Africa and Latin America the working hours are incredibly long reminiscent of 18th century working conditions. It still remain as one of the main issues of struggle between the working class and the bourgeoisie world over. The struggle for reduction of working hours may reduce the surplus labour time to some extent, but it can never eliminate surplus labour time. To eliminate surplus labour time it is not sufficient to eliminate capitalist exploitation but it is necessary to end all forms of exploitation of labour.

Relative surplus Value

Exploitation by reducing the necessary labour time instead of increasing surplus labour time is called **relative surplus value**.

As the resistance of the working class grew against extension of working hours the bourgeoisie now adopts this method more and more for example:

5 hours necessary labour time	5 hours surplus labour time
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$$\text{Rate of surplus value} = \frac{5}{5} \times 100 = 100\%$$

Now, without altering the length of the working day necessary labour time is reduced to 3 hours,

3hrs necessary labr time	7 hours surplus labour time
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$$\text{Rate of surplus value} = \frac{7}{3} \times 100 = 233.33 \%$$

The capitalist adopts both methods to exploit the workers. Hence, we can find both methods of exploiting surplus value, absolute surplus value and relative surplus value, commonly.

How is it possible to reduce the necessary labour time? (By decreasing wages to the level below the value of labour power necessary labour time can be decreased. But, in order to explain surplus value, let us consider that labour power is sold at the price of its value. Let us leave aside for the present the aspect that by decreasing wages how necessary labour time can be decreased since we are analysing surplus value even when labour power is paid for its full value..

Competition is a characteristic feature of capitalism. Capitalists compete with each other to sell their goods. In that process they try to cut the cost of production and sell their goods at a reduced price. As a result of this new types of machines and new methods of production are introduced. Due to the development of productive forces, productivity of labour power is increased and socially necessary labour time is reduced, thereby the value of commodities also declined. As the value

of consumer goods, which determines the value of labour power, declines the value of labour power also decreases. Thereby, surplus labour time is increased and the capitalist appropriates relative surplus value.

But the reduction of necessary labour time, due to increase in labour productivity, is not a conscious measure carried out by a capitalist. On the contrary it is the outcome of the process of development of the capitalist mode of production.

Extra-surplus value: What is the motive behind introducing machineries and technology? To acquire extra surplus value. The value of a commodity is determined by socially necessary labour time. By introducing new technology and methods, the capitalist is able to produce commodities at less than the socially necessary labour time. Since there commodities also have the same value like other commodities the capitalist is able to gain more surplus value than others.

For example, in a factory where production carried out at socially necessary labour time, wages are Rs.10; work day is 10 hours; productivity of labour is one piece per hour; constant capital invested in Rs.2 per piece; and value or the price of the product is Rs.4. Then,

(in Rs.)

$$\text{Value of the commodity produced by each worker} = 10 \times 4 = 40$$

$$\text{Constant capital required to produce 10 piece} = 10 \times 2 = 20$$

$$\text{Value created by labour power per day} = 40 - 20 = 20$$

$$\text{Value created by labour power per hour} = \frac{20}{10} = 2$$

$$\text{Necessary labour time} = \frac{\text{Value of labour power}}{\text{Value created by labour power per hour}}$$

$$\text{Necessary labour time} = \frac{10}{2} = 5 \text{ hours}$$

$$\text{Surplus labour time} = 10 - 5 = 5 \text{ hours}$$

5 hours necessary labour time	5 hours surplus labour time
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$$\text{Surplus value} = 5 \times 2 = \text{Rs. } 10$$

$$\begin{aligned} \text{Rate of surplus value} &= \frac{\text{Surplus labour time}}{\text{Necessary labour time}} \\ &= \frac{5}{5} \times 100 = 100\% \end{aligned}$$

$$\begin{aligned} \text{Rate of surplus value} &= \frac{\text{Surplus value}}{\text{Variable capital}} \times 100\% \\ &= \frac{10}{10} \times 100 = 100\% \end{aligned}$$

Let us imagine, by introducing new types of machines and production techniques. The productivity of labour is increased and a worker produces 20 pieces instead of 10. Then,

(in Rs.)

$$\text{Value of commodity} = 20 \times 4 = 80$$

$$\text{Constant capital required to produce 20 piece} = 20 \times 2 = 40$$

$$\text{Value created by labour power per day} = 80 - 40 = 40$$

$$\text{Value created by labour power per hour} = \frac{40}{10} = 4$$

$$\text{Necessary labour time} = \frac{10}{4} = 2 \frac{1}{2} \text{ hours}$$

Necessary labour time 2 ½ hours	Surplus labour time 7 ½ hours
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$$\text{Surplus value} = 7\frac{1}{2} \times 4 = \text{Rs. } 30$$

$$\text{Rate of surplus value} = \frac{7\frac{1}{2}}{2\frac{1}{2}} \times 100 = 300\% \quad \text{or}$$

$$\text{Rate of Surplus value} = \frac{30}{10} \times 100 = 300\%$$

The capitalists producing at socially necessary labour time get Rs. 10 as surplus value. Therefore,

$$\text{Extra surplus value} = 30 - 10 = \text{Rs. } 20$$

Where from does the capitalist, who introduced new machines and new production techniques, get the extra surplus value? The source of the extra surplus value is derived from the labour productivity of the worker which is increased by introducing new machines.

The greed to acquire extra surplus value continuously drives the capitalists to introduce new machineries and new techniques of production. If a capitalist gains by extra surplus value, other capitalists of that industry will follow suit sooner or later. As a result of this the labour productivity of that industry on the whole would be enhanced. This leads to the decline in the value of that commodity or reduction in the socially necessary labour time of that commodity. The extra surplus value could be gained only by introducing the new technique. After sometime it will disappear. Thus, if a capitalist wants to gain extra surplus value he must develop the productive forces continuously. This aspect plays a determining role in the competition between capitalists. If a capitalist is unable to introduce new techniques and develop the productive forces he may have to spend more labour power than the value of the commodity, and thus pushed to bankruptcy very soon. In their hunt for extra surplus value, the capitalists on the one hand develop the productive forces and on the other hand eliminate a number of small capitalists and small scale commodity producers. However, the greed for extra surplus value creates a situation where capitalist are to inevitably introduce new machines and technology. This is the reason behind the unprecedented development of productive forces under capitalist production, and the total change in the process of production

and labour.

Development of capitalist mode of production: Tendency of degeneration in the conditions of working class

Undoubtedly, the productive forces have developed to an unprecedented level under capitalist production. It has completely transformed the process of labour and production. The increase in productivity instead of mitigating the exploitation of labour has intensified further. Along with the development of capitalist mode of production the living conditions of the working class have started to degenerate.

The capitalist mode of production has socialised production and labour. In it labour is linked with each other and co-ordinated. It eliminates individual type of labour. As capitalist production develops the socialisation process of labour and production expands. Productivity also increased to an unprecedented level. When we say that the capitalist production increases productivity and reduces the labour time to produce commodities, does it mean that the work load of the workers is going to be decreased? Not at all. On the contrary with the increase in productivity the work load of the workers also increase. The working class is being more and more pauperised day by day. Their living condition has been worsening.

It is not the workers who run the machines but machines that run the workers: Division of labour further expanded in the process of development of the capitalist mode of production. Modern technology in co-ordination with highest level of division of labour makes the labour process very easy by dividing them into very simple operations. Yet the work load for a worker is increased many times. The workers working the whole day without any rest by competing with the machine. The workers, who used the means of production as per their requirements have to cope with the requirements of the means of production the workers become just another part of the machine.

“If we consider the process of production from the point of view of the simple labour-process, the labourer stands in relation to the means of production, not in their quality as capital, but as the mere means and material of his own intelligent productive activity. In tanning, e.g. he

deals with the skins as his simple object of labour. It is not the capitalist whose skin he tans. But it is different as soon as we deal with the process of production from the point of view of the process of creation of surplus-value. The means of production are at once changed into means for the absorption of the labour of others. It is now no longer the labourer that employs the means of production, but means of production that employ the labourer.” (Capital I. pp. 293-294)

Capitalist production relations, whenever and where ever they exist, are exploitative relations i.e., relations of extracting surplus value and coerce the workers to involve themselves in that relationship. The coercion not only reaches its higher levels in the process of production but also transforms into a technological coercion. The workers become the slaves of the instruments of production.

“..... That factory work exhausts the nervous system to the uttermost, it does away with the many-sided play of the muscles, and confiscates every atom of freedom, both in bodily and intellectual activity. The lightening of the labour, even, becomes a sort of torture, since the machine does not free the labourer from work, but deprives the work of all interest by means of its conversion into an automation, the instrument of labour confronts the labourer, during the labour process, in the shape of capital, of dead labour, that dominates, and pumps dry, living labour-power..... The technical subordination of the workman to the uniform motion of the instruments of labour, and the peculiar composition of the body of work people, consisting as it does of individuals of both sexes and of all ages, give rise to a barrack discipline, which is elaborated into a complete system in the factory, and which fully develops the before mentioned labour of overlooking, thereby dividing the work people into operatives and overlookers, into private soldiers and sergeants of an industrial army.” (Capital.I. pp. 398-399)

Therefore, the elimination of capitalist relations of production by the working class through a revolution means the elimination of capitalist ownership over the means of production. At the same time it also means the elimination of the capitalist process of production which ties down the worker without any freedom.

Women and children have become sources of cheap labour: Uninterrupted production and supply of labour power are prerequisites

for uninterrupted capitalist production. Therefore, it is necessary for the worker to maintain his family for the reproduction of his labour power. But the relationship between the surplus value and “domestic work” of the wife and mother (to some extent children also) of the worker, is a direct one. In the name of “domestic work” the labour of women (cooking, washing of clothes, stitching, fetching water, etc.) is very essential for the production of labour power of the worker every-day. In the absence of the family if all these necessities are to be bought then the value of the labour power of the worker will increase. The necessary labour time increases proportionate to the increase in the value of labour power, and consequently surplus labour time will decrease to that extent. “domestic work”, although appears as the private affair of the family of the worker, in fact, it directly facilitates the increase of surplus labour time or surplus value for the capitalist. It is necessary for the capitalist class to retain “domestic work” as a private family affair and to consider “domestic work” as the natural responsibility of women in order to gain more surplus value.

The wife and children of the labourer are also exploited under the capitalist mode of production just as under slavery and the feudal system. But in a capitalist society just as all other relations, the relation between exploitation and “domestic work” is also disguised by the fetishism of commodities. The patriarchal system, thinking and attitudes facilitate those.

As a result of simplification of labour process due to mechanisation, new resources of labour power is found. The whole family of the worker, including the children, were pulled into the labour market.

Even today, it is impossible to eke a living for the worker’s family unless the whole family of the worker sell its labour power every day. As the wife and children have also become wage slaves, the value of labour power has declined very much. The value of labour power of the worker is no more equal to the value of minimum level of means of subsistence of his family. Now it has become the value of three or four workers of that family. If the value of the labour power of all the three or four workers are put together it might be a little more than that of the value of a single worker sometime back. But by paying little more, the capitalists are now able to utilise, squeeze the labour power of three or

four workers and exploit more surplus value. After women and children entered the labour market the value of labour power has declined and surplus value has increased manifold. Besides, the wages are depressed permanently in the labour market. (This is one of the reason for the increase of the industrial reserve army. We shall look into this aspect later).

Thus, the capitalist system granted “freedom” to working women. While doing so the “value” less domestic work as a wife and mother, got the “freedom” to participate in social production, which created value and provided surplus value to the capitalist, as a wage slave. Along with the fetters of patriarchy working class women were chained by wage slavery, and this is the ‘freedom’ she has obtained in capitalist society.

The capitalist system described as the most civilised society of human beings, sucks the blood of child labourers and exposed its demonic nature.

“In so far as machinery dispenses with muscular power, it becomes a means of employing labourers of slight muscular strength, and those whose bodily development is incomplete, but whose limbs are all the more supple. The labour of women and children was, therefore, the first thing sought for by capitalists who used machinery. That might substitute for labour and labourers was forthwith changed into a means for increasing the number of wage-labourers by enrolling, under the direct sway of capital, every member of the workman’s family, without distinction of age or sex.” (Marx. Capital. Vol. I. P-372).

“The value of labour-power was determined, not only by the labour time necessary to maintain individual adult labourer, but also by that necessary to maintain his family. Machinery, by throwing every member of that family on to the labour-market, spreads the value of the man’s labour power over his whole family. It thus depreciates his labour-power. To purchase the labour-power of a family of four workers may, perhaps, cost more than it formerly did to purchase the labour-power of the head of the family, but, in return, four day’s labour takes the place of one, and their price falls in proportion to the excess of the surplus labour of four over the surplus labour of one. In order that the family may live, four people must now, not only labour, but expand

surplus labour for the capitalist. Thus we see, that machinery, while augmenting the human material that forms the principal object of capitals' exploiting power, at the same time raises the degree of exploitation." (Capital. Vol. P. 373).

“Rationalisation”, and “reorganisation” measures brought into effect to streamline the labour process after World War I have further simplified the labour process and almost transferred all types of jobs into unskilled or semi-skilled types. In Ford Motors, Automobile Works, USA, 43% of the work force does not require any education, just a week’s explanation about their job is sufficient; and for 36% of the work force education is required from 1 day to one week; one per cent of the work force requires education for a period of 6 months to one year. (All these assessments were made in 1930). Modern technological developments have eradicated all differences between male and female workers. But the value of the labour power of women is still less than that of male workers throughout the world.

Increasing trend of labour intensity: Due to the heroic struggles of the working class, extension of workday has become limited. Since the length of the workday has decreased (10 hours workday, 8 hours workday have become legal), the capitalist tries to squeeze out maximum work from the worker within that period. As a result of this intensity of labour has increased acutely. Increasing the magnitude of labour within a specific period or to increase the work load of the worker within a specific time is called as increasing the intensity of labour. Increasing the speed of machines, fixing of labour quotas, piece wage, are some methods implemented by capitalists.

It is necessary to differentiate between increase of productivity and increase in labour intensity. Productivity of labour is increased due to the progress in technology and development in implements of labour. On the contrary, increase in labour intensity means increasing magnitude of labour within a specific period, without making any changes in the technical know-how, by increasing the speed of machines and production. Due to increase in labour intensity the worker has to exert himself to the maximum—manually and mentally—beyond his limitations. Increasing the intensity of labour twice means that the worker has to do two days’ work in one day.

Necessary labour time decreases due to increase in labour intensity. Relative surplus value increases. Let us take the earlier example used to explain extra-surplus value.

Necessary labour time = 5 hours

Surplus labour time = 5 hours

5 hours necessary labour time	5 hours surplus labour time
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Surplus value = Rs. 10

Rate of surplus value = $\frac{5}{5} \times 100 = 100\%$

After increasing the speed of machines twice,

Necessary labour time = 2½ hours

Surplus labour time = 7½ hours

Surplus value = Rs. 30.

Rate of surplus value = $\frac{7\frac{1}{2}}{2\frac{1}{2}} \times 100 = 300\%$

Let us see how some of these “sweating systems” work.

Taylorism: The capitalist divides the labour of a worker into simple operations and calculates accurately the time taken for each such operation even in seconds. Based on such calculations he determines the time for each job done by the worker. Based on this he fixes wages for the worker. Deductions are made from the wages of those workers who cannot complete the work within the stipulated time. This method is practiced widely in our country also.

“Rationalisation” is principally a modernised form of Taylorism. This system is being practiced under various names such as “incentive”, “production based bonus”, etc.

Fordism: The jobs to be done by workers are placed on a conveyor belt. Time is fixed, as in the case of Taylorism, and the conveyor rotates accordingly. The workers have to work at a speed equivalent to the conveyor's. As and when the workers get adjusted to that speed, the speed of the conveyor belt is increased once again.

Rationalisation, Reorganisation: Under rationalisation, reorganisation, basically intensity of labour is increased. Along with increasing the labour intensity the technological level is also improved under rationalisation. But the main aim is to increase labour intensity.

Production based wages, share in the profit etc., are aimed at squeezing the labour power of the worker

W a g e s

We have already said that wages are value of labour power in its monetary form and it is labour power, not labour itself, that is sold as a commodity. But, when wages are paid to the worker it is paid for a day's work and not as the value of his labour power. We know that the capitalist will not pay the worker for his labour during surplus labour time in a workday. But it appears that the worker is paid fully for a day's work.

Let us say, the wages of a worker is Rs 10 for a 10 hours workday. The capitalist says that he bought 10 hours labour of the worker at the rate of Re 1 per hour. Not only the capitalist, even the worker thinks that he sold his labour at the rate of Re 1 per hour. Thus, wages are considered as the price of labour. It also means that the worker is paid for all his labour. Price is the monetary expression of the value of commodities. So also wage is the price of labour power. But wages, as the price of labour, is considered to be paid for the whole working day. The capitalist and the worker, both, feel that the wages are paid in return for the worker's labour. Here, **the price of labour-power is disguised as the price of labour.**

“Although wages, appear as the price of labour or value of labour, actually it is only the value of labour power or price of labour power”. Wages, instead of price of labour power is disguised as price of labour, covers up exploitation of surplus value. The worker also

feels that he was paid for the full working day.

“In slave-labour, even that part of the working day in which the slave is only replacing the value of his own means of existence, in which, therefore, in fact, he works for himself alone, appears as labour for his master. All the slave’s labour appears as unpaid labour. In wage-labour, on the contrary, even surplus-labour, or unpaid labour, appears as paid. There the property relation conceals the labour of the slave for himself; here the money-relation conceals the unrequited labour of the wage-labourer.” (Marx, Capital, Vol. I, p 505)

Wages are kept lower than the value of labour power:

We have already seen that labour power also, like all other commodities, is sold according to its value. We also considered that the supply and demand of labour power is maintained equally. But, under the capitalist system, unemployment is a permanent feature. Moreover, it has the tendency to increase day by day. That is, the supply of labour power is always more than its demand. As a result of this, generally, wages remain lesser than the value of labour power.

Forms of Wages

Wages are the value of labour power paid in cash or they are the value of labour power in monetary form. Wages, which is paid as price of labour instead of price of labour power, are paid in different forms by the capitalists.

Before examining different forms of wages we must keep in mind the fact that the worker always sells his labour power to the capitalist on credit i.e. before the payment of wages. The capitalist pays the wages to the worker only after utilising his labour power for a day or a week or for a month. In other words, the capitalist pays only a part of the value created by the worker himself as wages.

Different forms of wages primarily be classified into two forms—time-wage and piece wage. Let us examine different forms of wages.

Time Wages:

Wages paid on the basis of time worked by the worker is called time wages. When a worker has worked for a particular time (one day or one week or one month) wages are paid accordingly. (The workday or the duration of work to be done by the worker has been fixed before employing the worker).

For example, if a capitalist pays Rs 10 as wages for 10 hours work done by a worker, actually the wages (Rs 10) is equivalent to the value of labour power only. But the wage is said to be paid for a day's work. The capitalist says that he paid Rs 10 for 10 hours work at the rate of Re 1 for one hour's work. The workers also feel that way. The wages paid on the basis of time conceals the exploitation of surplus value.

Not only that, time wages also help to depress the price of labour power below its value. It can happen in two ways: 1. Decreasing wages by decreasing working hours and 2. Over time work.

1. Decreasing Wages by Decreasing Working Hours: Time wage appears to be paid in return for every hour's work done. If the capitalist is able to utilise only 6 hours work for a day or 36 hours for a week, he would not pay Rs 10 for a day or Rs 60 for a week. Instead he will pay only Rs 6 per day or Rs 36 for a week. Even though the value of labour power is Rs 10 for a day the wages will be only Rs 6 for a day. The capitalist says that since he bought the commodity (labour) in lesser quantity he pays a lesser rate and the worker also feels the same.

We know that modern technology and methods of production have increased the intensity of labour gigantically. The working class (in imperialist countries) demands for 7 hours working day or 36 hours work for a week. The agents of imperialists , the social democrats and reformist trade union leaders, argue that, with the reduction of working hours it is 'natural' to cut wages. While workers demand for a reduction in work burden these agents argue for the reduction in wages corresponding to the reduction in working hours. With this argument the treacherous trade union leadership actually tries to turn the struggle of the working class, for a reduction in work burden, a boon to capitalists. It has become a regular feature to reduce working hours, and along with that a wage cut, particularly, during the periods of recession. If we

remember that wages are essential for the reproduction of labour power, “time wages” is one of the methods to depress the value of labour power.

2. Over time Work: We have already seen how the working class is being squeezed of all its energy during the so-called normal work day. In addition, we also see that the workers ‘volunteer’ themselves to do overtime work and compete with each other.

Labour power means human being. Man cannot work for 24 hour a day, like machines. The working hours which a worker can endure, are determined by the nature of work and intensification of labour. There is always a limitation for any kind of physical labour. The worker has to exert more labour, physical and mental, many times more than normal work, after crossing this limitation. That means the amount of labour power spent for every working hour progressively increases along with the prolongation of work hours beyond the normal working day. That is to say that the worker must toil for two or three or even four days of labour power to work beyond the normal work day.

The capitalist normally pays more price for every hour of work during overtime. But, it is negligible when it is compared with the value of labour power spent during over-time. Therefore, the so called ‘more wages’ for over-time work is, in reality, many times less than the value of labour power.

To regain or reproduce the labour power lost during over-time work, this over-time wage is not sufficient. As a result of this, the ability to work for 30 years, normally, is reduced to 15 or 20 years and the worker becomes a victim of diseases, premature ageing and death. Over-time work squeezes out the workers and they lose their ability to work. Not only that, over-time includes competitive mentality among workers and destroys their unity. Therefore, the working class must oppose over-time.

Why the workers volunteer themselves to do over-time work? Since wages are too low to eke out a normal life workers are left with no other way and are forced to work over-time. In our country, workers work for two shifts or even three shifts continuously. Here, like in other backward countries, workers are paid normal wages or a very little more than the normal wages for the over-time work.

When there is abundant supply of labour power why does the capitalist opt for over-time work? Normally, over-time work becomes necessary for a limited, short period, when there was increased demand for his products. When a new work force is employed the capitalists are supposed to provide education, health, shelter and such other facilities to the workers. Under such circumstances the capitalists opt for over-time by reducing the work force thereby minimising their expenses. In other words it minimises the sum of variable capital to be spent for buying labour power.

Piece Wages:

In this method the workers' income (wages) is determined based on the production of commodities or its parts in a fixed time (an hour or a workday). This form of payment of wages is called as "payment by results". Marx said that piece wages are time wages in disguise. The capitalist fixes the wage rate for every piece produced by the worker keeping in mind what an efficient and energetic worker could produce in a workday under time wages system.

If the wages, under time wages system is Rs 10 per day, and the worker produces 20 pieces a day, then the wage under piece wages would be 50 paise per piece. In this way the capitalist maintains that the piece wage does not increase higher than time wages. By linking wages with quantum of production the workers themselves increase the intensity of labour and prepare their own physical and mental ability wearing out. Marx said, "*Given piece-wage, it is naturally the personal interest of the labourer to strain his labour-power as intensely as possible; this enables the capitalist to raise more easily the normal degree of intensity of labour. It is moreover now the personal interest of the labourer to lengthen the working day since with it his daily or weekly wages rise.*" (Marx, Capital, vol. I, p 519)

But this system cannot be implemented everywhere. It can be implemented only where it is possible to quantify the work done by the worker. The capitalists combine the time wages with piece wages through different methods. Production linked bonus, incentive scheme and such

other methods are formulated with the aim of increasing labour intensity by the workers themselves.

Nominal Wages and Real Wages:

Wages paid in the form of money is called as *nominal wages*, because it does not reflect the standard of life of the workers. Actually he worker sells his labour power to buy goods necessary for his life. The standard of life of a worker is reflected through his ability to buy the quantity of goods necessary for his life from the nominal wages, i.e., wages in money form, which he receives. Therefore, the ability to purchase the goods necessary for life from the nominal wages or wages in the form of goods necessary for life is called as *real wages*.

Normally, increase in wages means increase in nominal wages only. When nominal wages are increased it does not mean that real wages have also increased. Under the capitalist system prices of essential commodities (or goods necessary for life) increase continuously; value of money (purchasing power) falls; tax burden increases. As a result of this, even though there is an increase in nominal wages, real wages continue to fall.

Dearness allowance (DA) is paid to employees and a section of the organised industrial proletariat. DA is paid to compensate the increase in Consumer Price Index (CPI) in order to maintain the level of real wages. But the CPI always indicates the prices of commodities at lower level due to the method adopted by the government to calculate the CPI. Hence, real wages of employees and workers also continue to fall.

Fall in real wages means increase in poverty and pauperisation of the working class. In the process of development of capitalism the tendency of fall in real wages and increase in poverty among working class also takes place. The working class has to fight continuously in order to maintain its standard of life. But it must recognise the limits of economic struggles. Economic struggles may help the working class to maintain its standard of life, which deteriorates day by day, but it will not end wage slavery or exploitation of surplus value. To end wage slavery and exploitation of surplus value it must destroy the capitalist system itself. There is no other way than this.

Chapter IV

Accumulation of Capital: The Deteriorating Tendency in the Conditions of the Working Class

Simple Reproduction and Extended Reproduction

Production is an inseparable part in the process of continuous, repetitive reproduction. The needs of life of man does not end at once. Therefore, production of goods necessary for life must be carried out uninterruptedly. A peasant does not stop growing crops after one year. He must do it every year. That is, he engages in reproduction. In any society production of any goods is carried out as a part of the process of reproduction. In the process of reproduction, when the level of production is constant, it is called as *simple reproduction*; where as when the level of production is expanded it is called *extended reproduction*.

The analysis of capitalist production exposes the exploitation of surplus value. Whereas the analysis of the capitalist reproduction reveals the process, how the exploited surplus value transforms into capital and how in its turn it plunders the surplus value, and the process of degeneration in the living conditions of the working class as capitalist production expands. Capitalist production is basically expanded reproduction. The capitalist always transforms the exploited surplus value into capital. This transformation of surplus value into capital is called as *accumulation of capital*. As a result of this accumulation of capital expanded reproduction takes place.

Capitalist Simple Reproduction: Let us first examine capitalist reproduction under the conditions of simple reproduction. Let us consider that a capitalist starts a factory with an investment of Rs 10,00,000. Out of this Rs 8,00,000 is spent on the factory building, raw materials, machineries (for the convenience of analysis let us imagine that the means of production worth of Rs 8,00,000 is completely consumed and its value is transformed into goods) and Rs 2,00,000 is utilised to purchase labour power. Let us imagine the rate of surplus value is 100%. Let us consider constant capital as c , variable capital as v , and surplus

value as s . Then,

$$\left. \begin{array}{l} \text{Value of commodities} \\ \text{produced in the I year} \end{array} \right\} = 8,00,000 c + 2,00,000 v + 2,00,000 s = 12,00,000$$

If we assume that the capitalist consumed the whole surplus value for his personal requirements, then he will have the capital of Rs 10,00,000 for the second year also. Then,

$$\left. \begin{array}{l} \text{Value of commodities} \\ \text{produced in the II year} \end{array} \right\} = 8,00,000 c + 2,00,000 v + 2,00,000 s = 12,00,000$$

Here in the process of reproduction, the level of production is not expanded. It is continued at the same level. Capitalist simple reproduction brings out two important facts. They are:

1. It is mere fable that the capitalist carries out production in order to provide livelihood for the worker. The worker, in the process of production, not only creates the value (equivalent to variable capital) necessary to maintain his labour power, which is necessary for reproduction, but also for the maintenance of the capitalist, the value necessary for the luxurious life of the capitalist. Therefore, it is not the capitalist who feeds the worker, on the contrary, it is the worker who feeds the capitalist.

2. There is an opinion, to some extent even among the working class, that it is correct and justified for the capitalist to acquire profit as he has invested capital. But, capital, which is considered to be the source of profit, itself was created by labour power, which was appropriated by the capitalist in the form of surplus value. This fact was brought into light by the process of capitalist reproduction. In the above mentioned example, the capitalist consumes Rs 2,00,000 per year for his personal consumption. In the absence of surplus value the capital (Rs 10,00,000) invested by him would have been consumed in five years period. Instead, even in the sixth year, he will have a capital of Rs 10,00,000. This capital is nothing but the surplus value exploited in the earlier five years.

Marx said, “*Apart than from all accumulation, the mere continuity of the process of production, in other words simple reproduction, sooner or later, and of necessity, converts every capital into accumulated capital, or capitalised surplus value.*” (Capital, Vol. I, p 535)

Therefore, the expropriation of the means of production from the capitalist is by no means unjustified. On the other hand, not to do so would be unjustified.

Capitalist Expanded Reproduction: While analysing simple reproduction, above, we have seen that the capitalist spends the surplus value wholly for his personal consumption. But in reality the capitalist will not spend the whole surplus value exploited from the worker. He will take one part of the surplus value for his personal consumption and transform the rest into capital. That means, he will reinvest the exploited surplus value again to exploit further. This process is called accumulation of capital and due to this process the volume of capital increases every year, and production is expanded. Expanded reproduction takes place due to accumulation of capital. Thus, the character of capitalist production is expanded reproduction.

Let us take the same example, which we used to explain simple reproduction, to also explain expanded reproduction. In this the capitalist divides surplus value into two halves out of which he consumes one half for his personal needs and the other half is added to the capital. Let us also consider that the ratio between constant capital and variable capital remains the same. Then,

$$\left. \begin{array}{l} \text{Value of commodities} \\ \text{produced in the I year} \end{array} \right\} = 8,00,000 \text{ c} + 2,00,000 \text{ v} + 2,00,000 \text{ s} = 12,00,000$$

Since 50% of surplus value is added to the capital and the ratio between constant and variable capital will be maintained at the same level, now the capital is Rs 11,00,000; constant capital is Rs 8,80,000 and variable capital is Rs 2,20,000.

$$\left. \begin{array}{l} \text{Value of commodities} \\ \text{produced in the II year} \end{array} \right\} = 8,80,000 \text{ c} + 2,20,000 \text{ v} + 2,20,000 \text{ s} = 13,20,000$$

It is clear that expanded reproduction is possible only when there is accumulation of capital or a part of surplus value is added to the capital.

Accumulation of Capital

The capitalist always strives to expand his capital and surplus value by converting one part of surplus value into capital. In this process the

bourgeoisie expands production gigantically. Why does the capitalist want to accumulate larger part of surplus value instead of spending it on his personal needs? Bourgeois economists say that the personal character of a capitalist such as “thriftiness”, “abstinence”, “postponement of consumption” are the reasons for the intense aspiration to accumulate capital.

There is no limit to the greediness of the capitalist in accumulating surplus value. Without increasing the level of production continuously, by accumulation of capital, he cannot increase the volume of surplus value continuously. In other words, capitalist competition compels him to a situation where he must accumulate capital. Those who have more capital are placed in an advantageous position in enhancing their machineries, purchase of raw materials and introduction of latest technology. Only for such capitalists is it possible to increase labour productivity and to achieve success in the competition by reducing individual labour time than the socially necessary labour time. Otherwise he will lose in competition. The big capitalist will swallow him. Competition acts as a force by which every capitalist must engage in accumulation of capital. The fear of defeat in competition and pauperisation creates a situation where the capitalist must accumulate capital in order to strengthen his capacity to compete. Marx said:

“The development of the capitalist production makes it constantly necessary to keep increasing the amount of the capital laid out in a given industrial undertaking, and competition makes the imminent laws of capitalist production to be felt by each individual capitalist, as external laws. It compels him to keep constantly extending his capital, in order to preserve it, but extend it he cannot, except by means of progressive accumulation.”

The capitalist “...shares with the miser the passion for wealth as wealth. But that which in the miser is a mere idiosyncrasy, is in the capitalist, the effect of the social mechanism, of which he is but one of the wheels.” (Capital, Vol. I, p. 555)

The capitalist got recognition as a capitalist through his capital. The amount of capital in his possession determines his status in society. To achieve higher status in capitalist society means to accumulate more capital.

Accumulation of capital is explained thus:

“To accumulate, is to conquer the world of social wealth, to increase the mass of human beings exploited by him, and thus to extend both the direct and the indirect sway of the capitalist.” (Capital, Vol. I, p. 555)

Does it mean that, the capitalist will not spend for his luxurious life, when we say that there is no limit for his greed for surplus value and there is no other way than to accumulate capital? Absolutely not. On the one hand he will continue to accumulate capital and on the other he will spend to lead a luxurious life. Marx explained this as:

“When a certain stage of development has been reached, a conventional degree of prodigality, which is also an exhibition of wealth, and consequently a source of credit, becomes a business necessity to the “unfortunate” capitalist. Luxury enters into capital’s expenses of representation. Moreover, the capitalist gets rich, not like the miser in proportion to his personal labour and restricted consumption, but at the same rate as he squeezes out the labour-power of others, and enforces on the labourer abstinence from all life’s enjoyments. Although, therefore, the prodigality of the capitalist never possesses the bonafide character of the open-handed feudal lord’s prodigality, but, on the contrary, has always lurking behind it the most sordid avarice and the most anxious calculation, yet his expenditure grows with his accumulation, without the one necessarily restricting the other.” (Capital, Vol. I, p. 557)

Therefore, we must understand that the capitalist while accumulating capital, will also spend heavily on luxury and prodigality.

Concentration of Capital and Centralisation of Capital

Accumulation of capital does not mean expansion of capital and production only, but also introduction of new methods of production, instruments and machineries. Big changes in production takes place every day. Big factories are setup, where hundreds, thousands of workers work together. While the big capitalists with their large accumulation, modern means of production and methods enter competition the smaller producers become bankrupt.

The expansion of scale of production through accumulation of capi-

tal is called as *concentration of capital*. In the process of concentration of capital small capitalists become bankrupt while competing and capital concentrates in the hands of a few capitalists. Through pauperisation, purchase and mergers of small capital big capital becomes bigger. The process of formation of small capitals into big capital is called as *centralisation of capital*. Marx explains how centralisation of capital differs from concentration of capital.

“This splitting-up of the total social capital into many individual capitals or the repulsion of its fractions one from another, is counteracted by their attraction. This last does not mean that simple concentration of the means of production and of the command over labour, which is identical with accumulation. It is concentration of capitals already formed, destruction of their individual independence, expropriation of capitalist by capitalist, transformation of many small into few large capitals. This process is different from the former in this, that it only presupposes a change in the distribution of capital already to hand, and functioning; its field of action is therefore not limited by the absolute growth of social wealth, by the absolute limits of accumulation. Capital grows in one place to a huge mass in single hand, because it has in another place been lost by many. This is centralisation proper, as distinct from accumulation and concentration.” (Capital, Vol. I, p. 586)

What is the impact of the process of development of accumulation of capital on the conditions of the working class? To answer this question, first, it is necessary to understand the concept of organic composition of capital.

Organic Composition of Capital

Marx divided capital into two parts or two organs; constant and variable, keeping in mind the role they played in the process of creating value. The ratio between these two parts or organs, the constant capital and variable capital, of capital is known as *organic composition of capital*.

In terms of materials capital consists of, the organic composition of capital will be the ratio between the means of production and labour power. A particular ratio, that is so many units of means of production

and so many units of labour power, is based on the level of technology. This ratio is a technical relation. The capitalist cannot alter this as he likes. The quantitative ratio of composition of capital between means of production and labour power is known as *technical composition of capital*.

If it is looked at in terms of value, the organic composition of capital will be the ratio between the capital spent on the purchase of means of production and the capital spent on the purchase of labour power. That is the ratio between constant capital and variable capital. This ratio is called as *value composition of capital*.

There is a close relationship between the technical composition and the value composition of capital. Generally, when there is a change in the technical composition of capital there will also be a change in the value composition of capital. Marx, keeping in mind the relationship between these two, said about value composition as follows:

“...I call the value-composition of capital , in so far as it is determined by its technical composition and mirrors the changes of the latter, organic composition of capital.” (Capital I, p. 574)

In the process of accumulation development in technology, introduction of heavy machineries, transformation of production into large-scale have also taken place. As a result of this productivity of labour increases. Hence, lesser magnitude of labour, than earlier, is required to produce commodities. In other words, the share of variable capital, in the total capital, is decreased relatively. Increase in productivity of labour is achieved by introducing new machines or latest technology. Therefore, the share of constant capital, in the total capital, is increased. That means, the organic composition of capital is increased further. General, organic composition of capital increases along with accumulation of capital. Increase in organic composition of capital means replacement of workers by machines. Modern machines and technology increases productivity of labour many fold and decreases the amount of labour power necessary for commodity production. If it is viewed on the scale of social production as a whole, with the increase in organic composition of capital the demand for labour power decreases. That means, unemployment will always keep rising.

For example, total capital is Rs 1,00,000; constant capital is Rs 75,000; variable capital is Rs 25,000. Then,

Organic composition of capital = 75,000 : 25,000 = 3 : 1 or

$$\begin{aligned} \text{Organic composition of capital} &= \frac{\text{Constant Capital}}{\text{Constant Capital} + \text{Variable Capital} (c + v)} = \frac{c}{c + v} \\ &= \frac{75,000}{75,000 + 25,000} = \frac{3}{4} \end{aligned}$$

Organic composition of capital 3/4 (or 3:1) means share of constant capital is three parts of total capital. In the process of accumulation of capital, let us consider, the organic composition of capital increases to 4/5 (or 4:1), 5/6 or (5:1). That is, the share of constant capital, which was three parts, has increased to four parts and five parts. Where as the share of variable capital, which was, one part out of four has decreased to one in five, and one in six.

Industrial Reserve Army

Unemployment is the general characteristic of capitalism. Along with the development of capitalist mode of production there is a tendency of rising unemployment in society. It is impossible under capitalism to eradicate unemployment as the capitalist mode of production is based on the exploitation of surplus value. This army of unemployed is called as industrial reserve army. Main reasons for the growth of industrial reserve army are:

1. The tendency of increase in the organic composition of capital is the main reason for the unfettered growth of industrial reserve army.
2. Modern technology and production methods have made the labour process simple and easy, thereby it has brought women and children into the labour market. The supply of labour power has tremendously increased as women and children have become a source of labour power. Moreover, women and children could be immediately deployed in work so far done by male workers as their labour power is cheap.

3. In the process of development of capitalist system the small producers, artisans and the peasantry who have become pauperised also join the ranks of workers.
4. The capitalist adopts various methods to increase labour intensity in order to extract more surplus value. This also contributes to the rise in unemployment.

The industrial reserve army is necessary for the capitalist mode of production in two ways: 1. The existence of an industrial reserve army helps the capitalist to exploit the employed worker. The capitalist depresses wages to the lowest level and increases labour intensity and threatens the worker either to comply with or join the ranks of the unemployed. 2. The process of growth of the capitalist mode of production explodes into a sudden expansion or contraction. The supply of labour power according to demand during the sudden expansion of production which creates a sudden demand for labour power, may not be possible with the normal growth of population. During such periods the industrial reserve army is very essential for the accumulation of capital.

Relative Surplus Population

The expansion in the ranks of industrial reserve army signifies the acute poverty faced by the working population. Utilising the pressure from the reserve army the capitalist class attempts to depress wages to the lowest levels. Due to this even the employed workers suffer from poverty. In the process of accumulation of capital, on the one hand, all the wealth keeps concentrating and expanding while on the other the working population become victims of acute poverty. But the capitalist class and their economists argue that working population in excess of demand for labourers or excess growth rate of population is the reason for unemployment, poverty and hunger. By doing so, they try to cover-up the inhuman nature of the capitalist mode of production. They also say that, the working class should reduce its supply by controlling its population, thereby wages may be increased and their living conditions improve.

If a situation, where the supply of labour power is decreased and wages are increased is created, the capitalist will introduce more labour

saving machines and methods so that the organic composition is increased causing increase in unemployment.

This is not the absolute surplus population which crossed the levels of productive sources of the society. This surplus population is created artificially by depressing the demand for labour power under the capitalist mode of production. Hence, Marx called this as “*relative surplus population*”. It is surplus only when it is compared with the amount of labour which the capitalist mode of production is able to consume. Therefore, it is clear that this surplus population is the creation of the capitalist mode of production.

Forms of Relative Surplus Population:

The relative surplus population exists in three forms in a capitalist society.

1. Floating surplus population: This surplus population is absorbed when there is an expansion of production and expelled when there is a contraction.

2. Disguised surplus population: This population consists of artisans in the rural areas, attached with small instruments of production, and is disappearing gradually. They may not appear to be unemployed, but, when it is compared with the amount of labour necessary in the rural areas, it becomes surplus.

3. Stagnant surplus population: This section comprises the rural industrial workers, who do not have any fixed job and work they engage themselves in what ever jobs are available, such as the casual labourers, and house servants. All of them are part of labour power. Since they do not have any fixed job, normally they work for longer hours with low wages. Their living standards are lower than the average living standard of the working class.

Accumulation of capital makes the working class live in poverty

In the process of development of a capitalist system, on the one hand, all the wealth is concentrated in the hands of few big capitalists, on the other hand, broad masses of working people live in abject poverty. Not only the unemployed ranks, even, the standard of living of

the employed workers face a declining tendency. Working conditions become very hard due to increase in labour intensity and work load. The internal laws of capitalist production cause degeneration in the conditions of the working class. **Together the development of the capitalist system perpetuation of poverty among working people is the absolute law of capitalist accumulation.** Marx said:

*“The greater the social wealth, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is industrial reserve army. The same causes which develop the expansive power of capital, develop also the labour-power at its disposal. The relative mass of the industrial reserve army increases therefore with the potential energy of wealth. But the greater this reserve army in proportion to the active labour-army, the greater is the mass of a consolidated surplus-population, whose misery is in inverse ratio to its torment of labour. The more extensive, finally, the lazarous-layers of the working class, and the industrial reserve army, the greater is official pauperism. **This is the absolute general law of capitalist accumulation.**”* (Capital, Vol., I, p. 603)

Relative Impoverishment:

While the share of surplus value, which transforms into capital, expands; the share of the working class declines in the new social value created in a year (national income) in the process of capitalist development. That is, relatively, poverty among the working class is on the rise.

According to official statistics, the share of wages in the national income in US was 59% in 1890. In 1923 it was 54%, and it declined to 40% in 1970. In Britain, between 1924-1954, its share in the national income declined from 45% to 40%.

The working class not only suffers from such relative impoverishment but also by absolute impoverishment.

Absolute impoverishment of the working class:

In the process of development of capitalist the working class suffers from absolute impoverishment. Absolute impoverishment manifests in five forms.

1. Existence of a big industrial reserve army is a manifestation of absolute impoverishment. Capitalism creates large unemployment and this in turn is very essential for the capitalist system. This mass of unemployed suffer from abject poverty. Accumulation of capital creates two diametrically opposite results for the bourgeoisie and the working class. For the bourgeoisie it is the process of concentration of capital, and expansion of its wealth. But for the working class it is a “process of replacement of men by machines”, it is a process in the swelling of the ranks of the unemployed and the exploitation of workers more severely. On the whole it is a process of decline in the living conditions of the working class. The division of society into two major camps, the rich and the poor, the process of differentiation, cannot be changed by the wishes of man. On the one end wealth is accumulated and on the other poverty is accumulated. Marx called this as the “*absolute law of capitalist accumulation.*”

2. Taking advantage of large scale unemployment capitalists depress workers’ wages to the very lowest levels. Even though there is a rise in nominal wages, real wages continue to fall. In the US during 1969-70 nominal wages of manufacturing workers rose by 2.6%. In the same period consumer price index rose by 5.5%, resulting in a fall of 2.9% of real wages. Price rise is a permanent feature in capitalist countries. As the cost of living increases, accordingly, the living standard of workers decreases. In the US during 1947-61, the cost of living increased by 26.4%. In Britain between 1938-55 it increased by 250%. As the cost of living increases the purchasing power of the workers declines resulting in the fall in their living standards. The American people have to pay more than half of their income towards loans, interest and taxes.

3. Big industrial cities have grown blindly due to the anarchic nature of concentration of industries under capitalism. The population is highly concentrated in these cities causing the growth of slums. The working class is forced to live in these slums in inhuman and unhygienic conditions. Health, education and such other facilities are not available for them. The growth of slums in the developed capitalist countries points to the escalation of absolute impoverishment there. In New York, America’s biggest city, 1.6444 million people lived in slums.

It rose to 2.572 million in 1957. Out of 180 million in 1959, 22 million people lived in the slums and another 44 million lived in sub-standard houses.

4. Together with the growth of capitalism, labour intensity and work load have also increased. The workers who have to work without even the leisure to breath, fall victims to diseases and succumb to early death.

5. Today, the capitalist economic system has spread all over the world. Therefore, if we take into consideration the living conditions of workers in neo-colonies and semi-colonies, the absolute impoverishment of workers can be easily understood.

Historical Tendency of Accumulation of Capital

Accumulation of capital is the motive force of the capitalist mode of production. But the process of conversion of surplus value into capital took place gradually. **Primitive accumulation of capital** has helped the capitalist mode of production to develop rapidly. The accumulation, carried out by forcible seizure of properties of small producers and plunder of colonies, facilitated a rapid growth of capitalist mode of production and industrial revolution. Primitive accumulation paved way for large scale production and accumulation.

Accumulation of capital transformed production into large-scale production. That means, it socialised production and labour. As the accumulation of capital progresses and the capitalist system of production develops the social character of production and labour expand tremendously. At the same time, smaller capitals are swallowed by the big and they become bigger and bigger.

As a result of the socialised nature of production and private ownership of the means of production the contradiction between them further intensifies. The objective conditions to put an end to the capitalist system is created in the process of accumulation of capital. Not only that, by transforming production into large scale production and labour into socialised labour, it also creates the working class, which sends it to the grave yard. Marx explained this historic tendency of accumulation of capital as follows:

“Hand in hand this centralisation, or this expropriation of many capitalists by few, develop, on an ever-extending scale, the cooperative form of the labour process, the conscious technical application of science, the methodical cultivation of the soil, the transformation of the instruments of labour into instruments of labour only usable in common, the economising of all means of production of combined, socialised labour, the entanglement of all peoples in the net of the world market, and with this, the international character of capitalistic regime. Along with the constantly diminishing number of the magnates of capital, who usurp and monopolise all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working class, a class always increasing in numbers, and disciplined, united, organised by the very mechanisms of process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. 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.”
(Capital, Vol. I, Pp. 714-15)

Chapter V

Circulation of Capital and Reproduction of Social Capital

Exploitation of surplus values is the function of capital. Surplus value is created in the process of production itself, and the capitalist has to mobilise (purchase) the means of production and the labour power from the market. The surplus value created in the process of production constitutes a part of the value of the commodity. The capitalist realises the exploited surplus value, which was created in the process of production, only in the sphere of exchange (by selling his products). Therefore, capital continuously flows from the sphere of production to the sphere of exchange and vice-a-versa. The circulation of capital takes place repeatedly and continuously. Let us examine the internal contradictions in the circulation of capital in this chapter.

Three stages in the circulation of capital

There are three stages in the circulation of capital and in each stage capital takes a different form.

First Stage: In the movement of capital, it takes the form of *money capital* in the first stage and transforms into *productive capital*. At this stage the capitalist purchases the means of production and the labour power necessary to carry out production. To make all necessary preparations for the creation of surplus value is the law of money capital.

Let us take money as ‘m’, commodities as ‘c’, labour power as ‘l’, and means of production as ‘mp’. Then the circulation of capital will be:

$$m - c < \begin{matrix} l \\ mp \end{matrix}$$

Second Stage: The second stage, the *production process*, starts with the completion of transformation of money capital into productive capital through a process of exchange. At this stage production is carried out with the help of means of production and labour power. The means of production and the labour power have been expended and the

productive capital transforms into *commodity capital*. At this second stage surplus value is created. To produce surplus value is the law of productive capital. The exploited surplus value remains as part of the value of the commodity. Let us take the productive capital as 'p' commodity produced in the process of production which contains surplus value as 'c'. Then the movement of capital in the process of production will be:

$$c \quad \left\langle \begin{array}{c} l \\ mp \end{array} \right\rangle \dots\dots p \dots\dots c^1$$

Third stage: The law of capital competes when the surplus value, created in the process of production, reaches the hands of the capitalist in the form of money. That is, the commodities, produced in the process of production, must be transformed again into money capital. In the third stage of the movement of capital in the form of commodity containing surplus value, again transform into money capital. Let us take, the value added money capital as m^1 .

Then the movement of capital will be:

$$c^1 - m^1$$

$c^1 - m^1$ is just not the simple exchange of commodities into money. It is also realisation of surplus value exploited in the process of production. It just be remembered that the commodities c^1 contain both the capital invested and the surplus value exploited. Therefore from the standpoint of the capitalist this stage is very important.

Out of all the three stages in the movement of capital, surplus value is created only in the second stage. But without the process of exchange in the first and third stages production of surplus value will be impossible; appropriation of surplus value is not possible. Therefore, each of the three stages are interdependent in the movement of capital. Capital must flow in all the three stages. If any obstruction is created at any stage the whole circulation of capital to be a standstill. Therefore, the capitalist must take care that capital should remain simultaneously in all the three forms at three stages. Then, the circulation of capital takes place uninterruptedly. The circulation of capital takes place as follows:

$$m - c \quad \begin{array}{c} < & l & > \\ & mp & & p \end{array} \quad c^1 - m^1$$

Industrial capital travels continuously from one after the other in all the three stages. If we analyse the uninterrupted movement of industrial capital, it will be clear that the circulation is not a singular flow. It will be three circular flows. They are:

1. Flow of money capital $m - m^1$
2. Flow of productive capital $p \dots p$
3. Flow of commodity capital $c - c^1$

In the uninterrupted circulation of capital, the three forms of capital flow will be

$$\begin{array}{c}
 (2) \\
 \overbrace{m - c \dots p \dots c^1 - m^1 \dots m - c \dots p \dots c^1 - m^1 \dots c - m \dots \text{etc.}} \\
 \underbrace{\hspace{1.5cm}} \quad \underbrace{\hspace{3.5cm}} \\
 (1) \qquad \qquad \qquad (3)
 \end{array}$$

Turn over of Capital

The duration of capital in the sphere of production and the sphere of exchange is called as **production time of capital** and **exchange time of capital** respectively. If we put together these two we get period of turnover. The time taken for capital to circulate once is the turn-over period of capital. The production time and the exchange time of capital determines the velocity of turn-over of capital. Production time and exchange time are different for different spheres and enterprises. Therefore, the velocity of turn-over is also different. The number of turn-overs (cycles) taken in one year is the velocity of turn-over.

Fixed Capital and Circulating or Working Capital:

So far we have considered that the total productive capital was transformed into commodity capital in the single process of production. But, actually, the character of various parts of capital is different. The productive capital in the form of factory building, machines, tools, accessories will not transform into commodity capital at once. It depreciates gradually with each and every process of production. That is,

its value is regularly transformed into the commodities through depreciation. For example, if a lathe is bought for Rs. 40,000 and worked for ten years, Rs. 4,000 worth of its value is transformed every year into the commodities produced. It takes ten years to transform the total value of the lathe. Such parts of capital (factories, machines, tools etc.) transform its value gradually for a longer period instead of one single process of production are called fixed capital.

Capital in the form of raw materials, fuel, auxiliaries and the capital used to purchase labour power is called *circulating or working capital*. The value of raw materials, fuel and auxiliaries is transformed into the value of commodities produced in a single process of production. In the same manner, labour power also transforms its value, including surplus value, in a single process of production. This circulating capital, not only transforms its value into the commodities produced in a single process of production but is also regained by the capitalist once the commodities are sold.

The division of capital into fixed and circulating capital depends upon the nature of various parts of capital and the condition under which the turn-over takes place. We have already said in chapter iii that Marx divided capital into constant capital and variable capital. This division was made in order to explain the role they play in the process of creation of value.

Role played in the production	Turn -over, nature of surplus value
Constant capital	<div style="display: flex; align-items: center; justify-content: center;"> <div style="border-left: 1px solid black; border-right: 1px solid black; padding: 0 10px;"> Factory, building, machines and accessories raw materials, feuels, auxiliaries </div> <div style="margin: 0 10px;">}</div> <div style="border-left: 1px solid black; border-right: 1px solid black; padding: 0 10px;"> Fixed capital </div> </div>
Variable capital	

Visible depreciation-Invisible depreciation: Depreciation caused by usage, in the production process, and by nature (rusting, etc) is called as visible or material depreciation. Depreciation caused due to devel-

opment of productive forces and decrease in socially necessary labour of same type of machines is called *invisible depreciation*. Due to introduction of modern machines depreciation of fixed capital takes place. The capitalist, in order to overcome invisible depreciation, carries production without stopping the machines even for a single minute and increases labour intensity. Through this he tries to get back fixed capital as early as possible (before invisible depreciation takes place).

Calculating the velocity of turn-over of capital:

Since there is a difference between the velocity of turn-over of fixed capital and circulating capital *the average velocity of turn-over is, normally, considered as the velocity of turn-over of capital*. Average velocity of various parts of capital invested in the beginning determines the normal velocity of turn-over. To calculate this normal velocity of turn-over of capital, the total invested capital should be divided by the total turn-over capital in a year. The table mentioned below explains the turn-over of capital.

Various Parts of Productive Capital	Value (Rs.)	No of Turn-overs in a Year	Total Turn-overs
Fixed capital	1,00,000	1/10	10,000
Buildings	30,000	1/30	1,000
Machines	60,000	1/10	6,000
Small instruments	10,000	3/10	3,000
Circulating Capital	50,000	4	2,00,000
Total capital invested	1,50,000	1.4	2,10,000

According to the above table, if total turn-over of capital, Rs. 2,10,000 is divided by total invested capital, Rs. 1,50,000, the velocity of total capital invested will be 1.4%. The composition of productive capital influences the velocity of turn-over. The velocity of turn-over of fixed capital is low while the velocity of turnover of circulating capital is high. If the velocity of turn-over of fixed capital part is high then the velocity of turn-over of total capital will be slow and if the circu-

lating capital part is more than the velocity of total turn-over capital will be high.

The total amount of capital to be invested will be reduced when the velocity of turn-over is increased. Not only that, along with the increase in the velocity of turn-over the velocity of variable capital turn-over also increases thereby producing more surplus value. For example, let us consider that the variable capital of capitalists A and B is Rs.2,000 each. Rate of surplus value for both is 100% A's capital turnover is 12 times whereas B's capital is 2 times in a year. Even though the variable capital of A and B are same, A gets Rs 24,000 as surplus value whereas B gets only Rs 4000.

$$\text{A's annual rate of surplus value} = \frac{\text{Surplus value}}{\text{Variable capital}} = \frac{24,000}{2,000} = 1,200\%$$

$$\text{B's annual rate of surplus value} = \frac{\text{Surplus value}}{\text{Variable capital}} = \frac{4,000}{2,000} = 200\%$$

Hence, the capitalist always tries to reduce the turnover period. To reduce the duration of production he extends the duration of the working day; increases labour intensity; improves methods of production; by developing transport and communication facilities he tries to reduce the exchange time of capital.

Reproduction of social capital as a whole

So far we have examined circulation of capital, turn-over from the view point of reproduction of individual capital. We have seen how an individual capitalist produces surplus value and how he appropriates it. But we must remember that he is not completely free to do so. Every capitalist is dependent on other capitalists for means of production necessary for production and other goods necessary for life. All these individual capitalists are connected with each other through an exchange relationship. For example, a textile mill capitalist is dependent upon a machine manufacturer for his machineries, and other capitalists pro-

ducing thread, fuel etc. Moreover, the capitalists, as consumers of finished goods, must have exchange relations with each other. Not only that, the major part of consumer goods produced are used by the workers. Therefore, consumer goods industry depending upon consumption of workers working in different industries. Thus, all individual capitals in society are mutually connected in exchange relations and constitute as a whole of social capital . Reproduction of social capital is carried out only through the movement of inter-connected, independent individual capitals, which are parts of the social capital as a whole.

The movement, reproduction of social capital, is very complex, because the goods produced by the individual capitals, which are parts of social capital as a whole, should be sold (realised). If all commodities produced in various industries, have to be sold, then the production in various spheres and industries has to be maintained according to the demand for those commodities. That is, the social capital should be distributed in a particular ratio, so that all commodities produced by various capitals in different spheres, should be able to be realised. Only then the means of production expanded in the process of production in different spheres the social product, will be able to be replenished either in the form of materials or in the form of value. Consumer goods necessary for the workers and the capitalist will be available and reproduction become possible. This is an important aspect in the reproduction of social capital.

Therefore, reproduction of social capital must be examined from two angles, replenishment in the form of value and in the form of material (goods).

Total social production, in the form of goods, can be broadly divided into two branches. They are: I, means of production (machines, raw materials, means of labour), II consumer goods (Food, cloth, soap, pen, cycle, etc.).

Let us examine, how the commodities produced in these two branches are realised in the process of reproduction of social capital.

Let us presume that each production cycle takes one year. That means the whole value of constant capital is transformed into the commodities produced in one year; all commodities produced are sold; rate

of exploitation is 100%; and there are only workers and capitalists in society. Under these conditions, first, let us see, how the commodities are realised under simple reproduction.

Simple reproduction - Realisation of social product

Example, (value in Rs.)

$$\text{I. } 4000 \text{ c} + 1000 \text{ v} + 1000 \text{ s} = 6,000 \text{ value}$$

$$\text{II. } 2000 \text{ c} + 500 \text{ v} + 500 \text{ s} = 3,000 \text{ value.}$$

Branch I should produce means of production necessary for branch II for the second year. That means, branch I should produce the commodities equivalent to the value of constant capital in both branches. Value in

$$\begin{aligned} \text{I} &= \text{I c} + \text{II c} \\ 6000 &= 4000 + 2000 \end{aligned}$$

Branch II should produce consumer goods necessary for the workers and capitalists in branch I and II. Since we have considered that, production is simple reproduction, the capitalists also, like the workers, consume all their income. Therefore, branch II should produce consumer goods equivalent to the sum of value of variable capital and also surplus value in branches I and II. value in

$$\begin{aligned} \text{II} &= \text{I v} + \text{II v} + \text{I s} + \text{II s} \\ 3000 &= 1000 + 500 + 1000 + 500 \end{aligned}$$

Now, let us examine what should be the relationship between branches I and II. It is necessary to produce commodities worth of 4000 in order to replenish the means of production, which was expanded in branch I. That is, commodities worth of 4000 is appropriated by internal exchange in branch I. Then, commodities equivalent to the value of variable capital + surplus value (1000+1000) in branch I still remain. Unless this means of production (commodities) worth of 2000 is exchanged with branch II it will not be realised.

Similarly, commodities equivalent to the value of variable capital + surplus (500+500) produced in branch II are consumed by the workers and capitalists of the same branch. That is, they are exchanged internally within that branch. Then, consumer goods equivalent to the

value of constant capital in branch II (2000) still remain. These can be appropriated only through exchange with branch I. That is, the value of commodities that remain after internal exchange in branch I and II should be equal. Or the constant capital of branch II should be equal to variable capital + surplus value in branch I.

$$\begin{aligned} \text{II } c &= \text{I } v + \text{I } s \\ 2,000 &= 1,000 + 1,000 \end{aligned}$$

In this way, commodities produced in these two branches, under the process of simple reproduction, are realised and reproduction takes place. Appropriation of commodities, equilibrium between two branches under simple reproduction is given below:

$$\begin{aligned} \text{I. } & 4,000 \text{ c} + \boxed{1,000 \text{ v} + 1,000 \text{ s}} = 6,000 \text{ w} \\ \text{II. } & \boxed{2,000 \text{ c}} + 500 \text{ v} + 500 \text{ s} = 3,000 \text{ w} \end{aligned}$$

Therefore, the conditions necessary for realisation of social product under simple reproduction are:

1. $w \text{ I} = c \text{ I} + c \text{ II}$
2. $\text{II } w = \text{I } v + \text{II } v + \text{I } s + \text{II } s$
3. $\text{II } c = \text{I } (v + s)$

Expanded reproduction - realisation of commodities

Exchange between two branches of production is very important in the reproduction of social capital. Under simple reproduction, the value of commodities produced in branch I should be equivalent to the value of constant capital in branches I and II.

But, to carry out expanded reproduction, it is essential to produce means of production more than the total value of constant capital in branches I and II. That is,

$$w \text{ I} > \text{I } c + \text{II } c$$

that is,

$$\text{I } (c + v + s) > \text{I } c + \text{II } c$$

Since, internal exchange equivalent to the value of constant capi-

tal takes place in branch II,

$$\mathbf{I (v + s) > II C}$$

To carry out expanded reproduction variable capital + surplus value in branch I must be greater than the constant capital in branch II. The value of production in these two branches is given below:

$$\mathbf{I. 4,000 c + 1000 v + 1,000 s = 6,000 w}$$

$$\mathbf{II. 1,500 c + 750 v + 750 s = 3,000 w}$$

In the above example, variable capital + surplus value in branch I is greater than the constant capital in branch II. That is,

$$\mathbf{I. (1000 c + 1000 s) > II. 1500 c}$$

Let us consider that the capitalist in branch I consumes half of surplus value (500) for his personal needs and the remaining half is accumulate into capital. While transforming into capital, let us take the organic composition of capital in the ratio of 4:1.

$$\begin{array}{rcc} & \mathbf{500 \text{ Personal consumption}} & \\ \mathbf{I. 1000 s} & & \mathbf{400 c} \\ & \mathbf{< 500 \text{ Accumulation}} & \\ & & \mathbf{< 100 v} \end{array}$$

The constant capital in branch I is increased to 4400 (4000+ 400) due to accumulation of capital. Similarly, variable capital also increased to 1100 (1000 + 100). Commodities necessary for increased constant capital is available in the same branch. Consumer goods in branch II should be expanded according to the increase in variable capital in branch I. That is, expanded reproduction in branch II is also necessary . Expansion of production of consumer of goods in branch II should be in accordance with the increased necessity of consumer goods in branch I and II. Let us consider that, Rs. 150 is accumulated from the surplus value in branch II in the ratio 2:1, in accordance with earlier organic composition of capital. Then,

$$\begin{array}{rcc} & \mathbf{600 \text{ Personal consumption}} & \\ \mathbf{II. 750 s} & & \mathbf{100 c} \\ & \mathbf{< 150 \text{ Accumulation}} & \\ & & \mathbf{< 50 v} \end{array}$$

In accordance with the accumulation in both branches value of

products in these two branches is given below:-

$$\text{I. } (4,000c + 400c) + (1,000v + 100v) + 500s = 6,000w$$

$$\text{II. } (1,500c + 100c) + (750v + 50v) + 600s = 3,000w$$

Out of total value of Rs. 6000, commodities with a value Rs.4400(4000C + 400C) are exchanged internally in branch I. The remaining means of production with a value of 1600 (1000 V + 100 V + 500 S) should be exchanged with branch II. In branch II, out of total value of commodities produced i.e., Rs. 3000, consumer goods worth of Rs.1400 are exchanged internally (750 V + 50 V + 600 S). The remaining consumer goods worth of 1600 (1500 C + 100 C) are exchanged with the commodities worth of 1600 remaining in branch I. Through this exchange of surplus goods in both branches, they are realised.

Exchange of products between two branches under expanded reproduction, is given below:

$$\text{I. } (4,000c + 400c) + \boxed{(1,000v + 100v) + 500s} = 6,000w$$

$$\text{II. } \boxed{(1,500c + 100c)} + (750v + 50v) + 600s = 3,000w$$

Since the volume of capital in both branches have increased (In branch I from 5000 to 5500 and in branch II from 2250 to 2400) thus expanded reproduction takes place.

Expanded production in the following year is given below:

$$\text{I. } 4,400c + 1,100v + 1,100s = 6,600$$

$$\text{II. } 1,600c + 800v + 800s = 3,200$$

Condition for expanded reproduction is also there

$$\text{I. } (1,100v + 1,100s) > \text{II. } 1,600c$$

Three conditions necessary for realisation of social product under expanded reproduction are :

$$1. \quad \text{I}(v+s) > \text{II}c$$

2. Due to simple reproduction the value of products in branch II should be equivalent to the sum total of surplus value and also variable capital in branches I and II. That is.,

$$\text{II. } w = \text{I. } v + \text{II. } v + \text{I. } s + \text{II. } s$$

3. Similarly, $\text{II. } c = \text{I. } (v + s)$

Does the distribution of social capital, under the conditions mentioned above take place among the various branches under the capitalist mode of production? The driving force behind capitalist production are not the social necessities and use value but individual profit and exchange value. Blind competition, anarchy in production are characteristic of the capitalist mode of production. Therefore, the conditions mentioned above, are frequently violated. It so happens that the social capital is more than necessary in some spheres and less than necessary in some others resulting in shortage of some goods and rise in prices and over production of some goods. Capital flows blindly from one sphere to the other on the basis of profits. Large amount of resources are wasted. The equilibrium, established from the completely anarchic conditions, is very temporary. During crises, the disequilibrium between various branches manifest clearly and the circulation and reproduction of social capital gets disrupted.

Chapter VI

Distribution of Surplus Value

So far we have seen how the capitalists or capitalist enterprises, each of them exploit the labour power of the workers. But actually the bourgeois class as a whole exploits the working class. Various groups among the bourgeois class distribute the exploited surplus value among themselves. The surplus value reaches different groups of exploiters in the form of industrial profit, trading profit, banking profit, dividend, interest, rent, etc.

Profit - Rate of Profit:

Profit is the surplus value that reaches the hands of a capitalist after the commodity is sold. The value of commodity consists of constant capital (C), variable capital (V), surplus value (S). The capital invested by the capitalist is the total expenditure spent on constant capital and variable capital. It is called **cost price** or **cost of production**. After deducting the cost of price the capitalist receives surplus value as profit. The capitalist always feels that he got the profit from the total capital he invested. But actually, profit is another form of surplus value. Thus, variable capital is the source of profit.

The capitalist always compares the surplus value with the total capital. The rate of profit expresses the ratio between surplus value and total capital invested.

$$\text{Rate of profit} = \frac{\text{Surplus value}}{\text{Constant capital} + \text{Variable capital}} = \frac{s}{c + v}$$

The ratio between the surplus value and variable capital is the rate of surplus value. Thus, rate of profit is always lesser than the rate of surplus value. For example let us take constant capital is 8,00,000; variable capital is 2,00,000; surplus value is 2,00,000. Then,

$$\text{Rate of surplus value (s')} = \frac{s}{v} \times 100 = \frac{2,00,000}{2,00,000} \times 100 = 100\%$$

$$\text{Rate of Profit} = \frac{S}{C + V} \times 100 = \frac{2,00,000}{8,00,000 + 2,00,000} \times 100 = 20\%$$

While rate of profit is 20%, rate of surplus value is 100%. Rate of profit does not express intensity of exploitation. Rate of surplus value accurately expresses the intensity of exploitation. Therefore rate of surplus value is also called as rate of exploitation.

Marx, referring to a British trade union leader's words on the role played by the rate of profit under capitalist production said : *"A certain 10 per cent. will ensure its employment anywhere; 20 per cent. certain will produce eagerness; 50 per cent., positive audacity; 100 per cent. will make it ready to trample on all human laws; 300 per cent., and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged. If turbulence and strife will bring a profit, it will freely encourage both."* (Capital I, p. 712)

Average Profit and Price of Production

Average profit

Every capitalist aspires for a higher rate of profit. He wants to get as much a rate of profit possible with the least capital. There are different production conditions in various capitalist enterprises producing the same commodities. Labour productivity is high in those enterprises adopting modern production methods and technology. Individual labour time, in those enterprises is lesser than the socially necessary labour time. Hence they get more surplus value or profit.

Similar to the competition between individual capitalists there is competition between capitalists in different spheres. Production conditions in different industries and the different branches of same industry are different. Their organic composition of capital are different. Rate of profit will be more in industries where the organic composition of capital is less. Since the surplus value is created by variable capital, in those industries where the share of constant capital is more than that of variable capital, that is, where organic composition of capital is high, the rate of profit will be less. That is, the same amount of total capital creates different rates of profit in different industries or different branches of the same industry.

But such conditions cannot continue forever. As the capitalists pursue a higher rate of profit, blindly, some capitalists transfer their capital from the industries of lower rate of profit to the industries of higher rate of profit. As a result of this, production in industries, where rate of profit is more, crosses the levels of demand causing reduction in the prices of commodities and also rate of profit in those industries. Similarly, production level in the industries, where rate of profit is less, is decreased due to the transfer of capital, causing rise in the prices of those commodities and also increase in the rate of profit. Such transfer of capital from one industry to other, creates a situation where the rate of profit in all industries and spheres, on the whole, become more or less the same. This equal rate of profit is called as Average Profit Rate. Profit received on the basis of average rate of profit is called Average Profit. Average Profit on the basis of same profit for the same amount of capital comes into operation in the process of distribution of surplus value created by the working class, as a whole, in all industries and sectors.

Marx said “...*the average profit can be nothing but the total mass of surplus-values allotted to the various quantities of capital proportionally to their magnitudes in the different spheres of production.*” (Capital III, p. 174)

An illusion is created that, profit is created by total amount of capital because of the conversion of surplus value into profit. With the arrival of average profit the surplus value received by a capitalist is no more equal to the surplus value exploited in his enterprise. The capitalist gets the surplus value according to the amount of capital invested by him. Equal amount of surplus value is received for equal amount of capital invested. Due to this the illusion that profit is created by the total amount of capital, is strengthened further.

Price of production

When average profit is added to cost price, that is the sum of constant capital and variable capital, we get price of production.

$$\text{Price of production} = C + V + \text{Average profit}$$

Creation of average rate of profit, price of production by equalising rate of profit between different branches is given in the table. Let us

consider that, the three industries, given in the table, represent economic system. Each sphere has a capital of Rs. 10,000. Organic composition of capital in chappal industry is low, i.e., 2.33:1; in garment industry it is 4:1 and in machine industry it is 9:1; the annual turn-over rate for all three industries are same; constant capital transfers all its value into the commodities produced in one year; rate of surplus value is 100%.

Sphere of production	Constant capital	Variable capital	Surplus value	Value of commodity	Organic composition of capital	Rate of average profit	Average profit	Price of production	Price of production - value
	1	2	3	4	5	6	7	8	9
				[1+2+3]		[1+2 × 6]		[1+2+7]	[8 - 4]
						÷ 100]			
Chappal industry	7,000	3,000	3,000	13,000	2.33:1	20	2,000	12,000	-1,000
Garment industry	8,000	2,000	2,000	12,000	4.00:1	20	2,000	12,000	0
Machine industry	9,000	1,000	1,000	11,000	9.00:1	20	2,000	12,000	+1,000
Total	24,000	6,000	6,000	36,000	4.00:1	20	2,000	12,000	+1,000

Rate of surplus value is different due to the difference in the organic composition of capital in these three industries as a result of this the rate of profit also differs. The surplus value is 3,000 in the chappal industry in which the organic composition of capital is 2.3:1; the rate of profit is 30%. In the garment industry where the organic composition of capital is little higher (4:1), the surplus value is 2,000 and the rate of profit is 20%. In the machines industry where the organic composition is still higher 9:1, the surplus value is 1,000 and the rate of profit is 10%. Since the driving force of capitalist production is profit, some garment and machines industries transfer their capital to the chappal industry where the rate of profit is more. As a result of this, the rate of

profit in the chappal industry decreases and in the garment and machine industries it increases the average rate of profit came into operation in the process of the movement of capital in these three sectors in accordance with the rate of profit. All the three industries where their capital is the same (10,000) and profit is also same (2,000) receive an average profit. 20% average rate of profit is received in all these three industries. A surplus value of Rs. 1,000 exploited from the workers in the chappal industry reaches the capitalist in the machine industries. That is, the average rate of profit redistributes the total social surplus value among various spheres and branches of industry on the basis of equal profit for equal capital. After the average rate of profit is decided commodities are sold not on the basis of their value but on the basis of the price of production. The price of production in the chappal industry is Rs.1,000 lesser than its value while the price of the production of a commodity in machine industries is Rs.1,000 more than its value.

Does it then mean that the theory of value does not have any significance after the formation of the average rate of profit and the conversion of value into the price of production? No, if it is looked at separately, each price of production may appear different from value but the value of all commodities and the price of production in society as a whole will always remain equal. Therefore, the price of production is nothing but another form of value.

The Tendency of the Falling Rate of Profit

We have already seen that the rate of profit is less in industries where the organic composition of capital is more, and the rate of profit is more where the organic composition of capital is less. In the process of accumulation of capital the organic composition of capital also increases, i.e., in the process of development of the capitalist system it is inevitable that the organic composition of capital should increase. The tendency for increase in the organic composition of capital is the reason for the tendency of falling rate of profit. Therefore, Marx said, in the process of the development of the capitalist system the tendency of a falling rate of profit is inevitable. Falling rate of profit does not mean a decrease in profit as a whole. We can see the fall in the rate of profit as the organic composition of capital increases in the table given below. Even while the rate of profit decreases, the total profit increases.

Total capital	Constant capital	Variable capital	Surplus value/ profit	Profit rate Profit = Total capital x 100 (%)	Organic composition of capital
3,000	1,000	2,000	2,000	66.60	1:2
40,000	20,000	20,000	20,000	50.00	1:1
1,00,000	75,000	25,000	25,000	33.33	3:1
30,00,000	25,00,000	5,00,000	5,00,000	16.66	5:1
90,00,000	80,00,000	10,00,000	10,00,000	11.11	8:1
10,00,00,000	9,60,00,000	40,00,000	40,00,000	4.00	24:1

Rate of profit is the motivation for capitalist production. The falling tendency of the rate of profit exposes the internal contradiction in the development of capitalist production. The capitalist develops productive forces only for gaining more profit. The development of productive forces become a reason for the fall in the rate of profit. Capitalist production expands continuously or uninterruptedly through accumulation. The rate of profit determines the limitations for the development of capitalist production. The tendency of the fall in rate of profit becomes an obstacle for the development of production

“..... the rate of self expansion of the total capital, or the rate of profit, being the goal of capitalist production (just as self-expansion of capital is its only purpose), its fall checks the formation of new independent capitals and thus appears as a threat to the development of the capitalist production process. It breeds over-production, speculation, crises, and surplus capital alongside surplus-population.” (Capital. Vol. III. pp. 241-42)

Factors Counteracting the Tendency of the Falling Rate of Profit

1. Increase in labour productivity and decrease in value of constant capital discourages the increase in the organic composition of capital. On certain occasions it completely compensates the increase in organic composition.

2. The capitalist tries to maintain the rate of profit without allowing it to fall through measure such as increasing the intensity of labour, lengthening of work day, Taylorism, Fordism, rationalization, etc.,. That is, the tendency of the falling rate of profit further intensifies the exploitation of the working class.
3. The capitalist also tries to maintain the rate of profit by depressing wages rather than the value of labour power.
4. Due to the pressure of an industrial reserve army, work load increases and wages are decreased. Therefore the industrial reserve army also to some extent contributes to the maintenance of the rate of profit.
5. The raw materials and other essential goods are available cheaply due to foreign trade. During such periods the value of constant capital decreases due to foreign trade resulting in an increase in the rate of profit.

Even though the above aspects play their role, the tendency of fall in rate of profit in the development of the capitalist system continues to grow. *“Capitalist production seeks continually to overcome these immanent barriers, but overcomes them only by means which again place these barriers in its way and on a more formidable scale.”* (Capital III. P. 250)

The export of capital, creation of monopoly institutions, payment of higher prices for capitalist goods by the state also contribute in checking the tendency of the falling rate of profit. The tendency of the falling rate of profit is one of the main reasons for the crisis of over production which is inevitable in the capitalist system. Not only that, it also played an important role as the main motive force in the transition of capitalism from free trade to the monopoly stage. Rate of profit in manufacturing industries in the US :

1899	24.0%
1904	19.9%
1909	18.7%
1914	16.5%

Commercial Capital and Commercial Profit

So far we have said that only the industrial capitalist alone appropriates the total surplus value. But actually the industrial capitalist has to share the surplus value with mercantile capitalists, lending capitalists and landlords. Let us first look into commercial profit.

We know that the surplus value is produced during the process of production. The capitalist tries to reduce the duration of the exchange time as much as possible. Similarly less capital is required if the velocity of turnover is more. Therefore industrial capitalist, in order to increase the velocity of turnover, to reduce the exchange time and to limit his total investment, and also to sell his commodities he depends upon the commercial capitalist. By doing this industrial capitalist converts the commodity capital very quickly. Exchange expenses will also increase if he has to sell his goods. The commercial capitalist pays the money to the industrial capitalist before commodity capital changes into money. The commercial capitalist receives a part of surplus value for this. The industrial capitalist can immediately convert this money capital into productive capital to exploit more surplus value. The commercial capital also takes part in the process of creation of average profit. It also receives equal average profit just as industrial capital.

Loan Capital and Interest

So far we considered the capital invested by the capitalist as his own capital. But actually the capitalist takes loans for all his capital needs. This capital is called loan capital and capitalist as lending capitalist. The industrial capitalist pays a part of the surplus value in the form of interest. The ratio between loan capital and interest is called as rate of interest. The rate of interest will be lesser than the average rate of profit. The industrial capitalist will not be preferred to take a loan if the rate of interest is very high.

Bank Profit: The banks collect the unused or idle money in society through deposits and hands it over to the industrial capitalist as loan capital. The banks collect higher rate of interest on its loans than the rate paid to its depositors or debtor capitalists. The difference in the rate of interest between lending and borrowing will be the bank profit. The industrial capital depends mainly upon banks for its capital needs. Thus

the influence of banks is more on industrial capital. In imperialist countries banks have total control on the industrial and commercial spheres.

Ground Rent

Ground rent under feudalism express feudal relations between the landlord and the peasant. While under the capitalist system, ground rent expresses the relationship between landlord, agricultural capitalists and agricultural workers. The agricultural capitalist and the landlord share the surplus value created by the agricultural worker. The surplus value paid by the agricultural capitalist to the landlord is called rent. There are two types of capitalist rent: 1. Differential rent and 2. Absolute rent.

Again there are two types of differential rent also. They are Differential Rent-I and Differential Rent-II.

Differential Rent I: The productivity of land is different due to the difference in fertility of lands. There are three types of lands such as : Higher, middle and lower. There will be no ground rent for the lowest quality of lands. Marx said: “The price of production in the lowest quality of land controls the market”. The cultivators of higher and middle qualities receive more profit. This difference in profit is called differential rent-1. This difference is due to the fertility of land and its location.

Differential Rent II: Productivity is increased when capital is invested continuously on the same quality of land. As a result more than average profit is received from this. This increased profit is called differential rent-2. This increased profit belongs to the agricultural capitalist. It is transferred to the landowner only after the completion of the rent agreement. The land owner always wants to lend for a shorter period for this increased profit. But the agricultural capitalist always tries for a longer period of rent agreement.

Absolute Rent: We have said that there would be no ground rent for the lowest quality of land. If it is true then the land owner will rather allow it to remain fallow than give it free of rent. Actually there will be rent on this lowest quality of land also. This rent is called absolute rent. Absolute rent is achieved as a result of a monopoly hold over land. The rate of profit in agriculture is more due to the lesser organic composition of capital. Due to the monopoly on land, the capital will

not flow freely from other fields into agriculture. Therefore, the higher surplus value will remain in the agriculture sector. That is, the commodities in the agriculture sector are sold at its value (more than the price of production). This differences between value and price of production will become absolute rent.

Chapter VII

Economic Crises: The Creation of Capitalist Production

Economic crisis are a natural characteristic of the capitalist mode of production. The development of capitalist system does not proceed in a straight line nor smoothly. It develops through a severe economic crisis repeating itself several times. The crisis of overproduction is the natural characteristic of capitalist mode of production. The occurrence of such crisis after a given period was characteristic during the competitive stage of capitalism. But today, at the stage of imperialism, the crises have a character of general crisis. However, the economic crises are the product of the fundamental contradiction of the capitalist system, i.e., between the social character of production and the private ownership of the means of production.

We have already seen in chapter Five how capitalist reproduction is possible only in a very complex condition. Actually the equilibrium must be maintained not only between the two branches which we already examined but also between every branch and every department in each industry. But the conditions for reproduction are is violated frequently due to anarchy in the capitalist system of production. Crises are inevitable in a system where production takes place through competition and anarchic conditions.

“The anarchic conditions of modern production and distribution of products, conditions of production which are governed by profit instead of by the satisfaction of needs, conditions under which every one works on his own independent line in the endeavour to enrich himself. Such conditions cannot fail to result in frequently stagnation. At the outset of the era of industrial development, stagnation was confined to one or another branch of industry to one market, but since the centralisation of the activities of competitors, the workers, deprived of work in one branch of industry, invade another branch, choosing by preference one that is easy to learn. Thus the commodities which do not find a buyer in one market make their way into another, and so on. These little crises gradually coalesce to become in due time crises on the large

scale.”

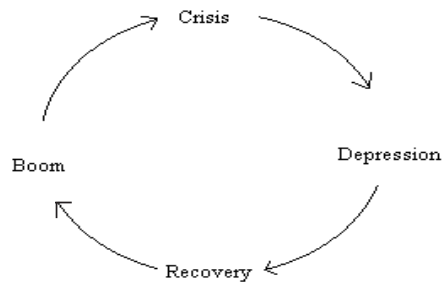
“During the whole of this century, industrial life has fluctuated between times of prosperity and times of crisis,-at intervals of from five to seven years a similar crisis has recurred, bringing in its train the intolerable wretchedness of the workers, a general revolutionary efferverscence, and exposing the existing order of society to the greatest dangers.” (Engels, Anti-Dhuring)

Crisis of over production does not mean that the production of commodities is more than the consumption needs of society as a whole. It means that the goods produced are not able to be sold in the market at its price of production. It means the production over and above the purchasing power of a limited section of the population. The capitalist accumulates uninterruptedly. He introduces new machines and methods of production. As a result of this on the one hand, production is expanded to gigantic proportions and on the other hand there is a great increase in the ranks of the industrial reserve army due to an increase in the organic composition of capital. The development of capitalism means the concentration of all social wealth on one side and poverty on the other. The working class becomes a victim of absolute poverty. Therefore the crisis of overproduction will continue as long as the exploitation of surplus value exists. When the mass of the population suffers from hunger the capitalist system creates, repeatedly, an absurd, inhuman condition, a peculiar condition that piles up essential goods which are wasted and destroyed. First let us see about the periodic crisis during the stage of free competition.

Periodic Crises

Till the end of Laissez-Faire in the end of the 19th century, there was a crisis of overproduction at regular intervals. That is why it is called periodic crisis. The economic system proceeds from one crisis to another periodically. The cycle of periodic crisis has four stages.

1. Crisis
2. Depression
3. Recovery
4. Boom/prosperity.



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duction in wages, deliberate destruction of commodities, machineries and industries and a reduction in internal and external trade. The contradiction between the possibility of increase in production in some sectors and a relative fall in demand in some other sectors manifests in destructive and coercive forms. The contradiction between highly developed levels of productive forces and production relations which obstruct the possibilities for progress of the productive forces commences.

The levels of production should be decreased forcibly to the levels of demand during the crisis period. To reduce means that there is no other way than the destruction of many industries, bankruptcies, deliberate destruction of a part of the productive forces. Under these conditions it transforms from the stage of crisis to that of depression.

Depression: This is the second stage in the cycle. In this stage the crisis is controlled without further intensification. But the industrial production is still stagnant. The prices of commodities are still at a low level. Business proceeds at a slow pace. Rate of profit is reduced. Unemployment, and wages remain at crisis-level. A part of the commodities produced are destroyed and another part is sold at reduced prices. This stage of depression continues till competition between capitalists for the market, sources of raw materials commences and conditions are created for recommencing industries and the reorganisation of constant capital. The capitalist utilises all types of technical developments to retain the profit which had fallen due to the crisis. The demand for machines and encouragement for expansion of production commences.

Gradually the necessary conditions for the next stage of recovery are created.

Recovery: Enterprises which could withstand the effects of the crisis and were able to expand production and reinvest fixed capital could recommence production. The level of production gradually touches the pre-crisis level and later even crosses it. Trade increases. The prices of commodities also increase. Profit rates also increase. Gradually unemployment decreases. When the level of production crosses the pre-crisis level, the cycle reaches its last stage.

Boom: It is the last stage in the cycle. The level of production continues to grow at this stage. Every capitalist expands production so as to overdo the other and establish new industries. Commodities are dumped in large quantities every day. Production advances rapidly outpacing demand. Over production begins invisibly and gradually increases. Surplus commodities suddenly gather in the market as a result of overproduction in the prosperous market. Prices decrease. Crisis again starts. The cycle recurs.

Capitalist production does not grow smoothly. It advances with ups and downs and severe convulsions. As a result and testimony of the intensification of the contradiction between productive forces and the relations of production, the development of capitalist production assumes a cyclic form. This cycle clearly proves that the capitalist system, in the process of development, creates its own obstacles and inevitably travels along the path of its own destruction. The contradictions in the capitalist economic system are resolved through this periodic crisis-severe and destructive crisis-and establishes the equilibrium.

The crisis intensifies all the major contradictions in capitalist production. The fundamental contradiction between the socialised character of production and private ownership of the means of production intensify further. It becomes increasingly clear that capitalist relations confine the development of productive forces. The contradiction between working class and the bourgeoisie becomes acute. The contradiction in commodity production between use value and exchange value and selling and buying clearly manifest during the crisis period. Not only that, the contradiction between various groups among the bourgeoisie and contradiction between bourgeoisie and other exploited

classes also reaches a higher level.

Since 1828 periodical crises occurred in 1836, 1847, 1857, 1872, 1890 and 1900. The crisis which occurred once in 10 years began to occur more frequently later. During the same period the capitalist system transformed to the imperialist stage. The crisis in the imperialist stage is called as general crisis.

The periodic recurrence of the cycle with all the four stages is not visible in the general crisis.

Chapter VIII

Imperialism: The Highest and Final Stage of Capitalism

In the beginning the capitalist system was at the stage of free trade or free competition. In the beginning of 20th century, the capitalist system had reached its highest stage or the last stage, that is monopoly stage. The analysis of Marx and Engels was undertaken of capitalism at the stage of free competition. The fundamental principles of the capitalist mode of production are applicable to the imperialist stage too since the core of the major contradictions of the capitalist mode of production was not resolved at the stage of imperialism. Moreover, the imperialist stage is the monopoly stage of capitalism itself evolved as the direct result of the intensification of this contradiction. Lenin continued the analysis of Capital following Marx. He analysed the principles of movement of capital at the stage of imperialism. Before studying Lenin's theory on imperialism let us have an idea in brief about the developments that have taken place and the transition from free capitalist stage to imperialism.

Laissez-Faire Stage

In this early stage of capitalist system there are numerous small capitalist enterprises. Any capitalist or enterprise could not control prices in the market. The capitalist system developed through competition and anarchic conditions. Primitive accumulation provided necessary capital to introduce revolutionary changes in the productive forces. Large scale industrialisation took place after the industrial revolution. Accumulation of capital increased rapidly. Concentration of capital also advanced rapidly. The social character of production tremendously developed. Production was transformed into large scale production. Organic composition of capital increased. At the same time, a large number of small producers disappeared as a result of competition. Small capitals became bankrupt. Big capital swallowed small capital. The process of centralisation of capital increased. The fundamental contradictions of the capitalist system further intensified. While production expanded it became more and more socialized and the means of production got

concentrated in the hands of a few capitalists. 90% of the population became propertyless with the development of capitalism. The ranks of the industrial reserve army swelled due to the increase in the organic composition of capital. The poverty of the working people increased. These mutually contradictory tendencies of development of capitalism under anarchic conditions paved the way for the crisis of over production. The capitalist mode of production developed through the repeated occurrence of periodic crisis. But capital itself became a fetter for the accumulation of capital and expansion of capitalist production. The gap between one crisis and another decreased. The crisis acquired a protracted nature. After the severe crisis of 1870's, the growth of monopoly institutions increased. Monopoly has become the main tendency; monopoly profits of the monopoly enterprises has to some extent checked the tendency of the falling rate of profit. Lenin characterised that monopoly was the essence of capitalism at the imperialist stage. In the same process, the capitalist system became a global system. Competition among monopolists for raw materials, market and colonies has intensified. In the beginning of the 20th century the capitalist system transformed to the stage of imperialism.

Basic Economic Features of Imperialism

Lenin defined imperialism by stating its five essential basic features in this way:

- “1. Concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life;
2. the merging of bank capital with industrial capital, and the creation, on the basis of this “finance capital,” of a financial oligarchy;
3. the export of capital as distinguished from the export of commodities acquires exceptional importance;
4. the formation of international monopolist capitalist associations which share the world among themselves, and
5. the territorial division of the whole world among the biggest capitalist powers is completed.” (Imperialism: the

highest stage of capitalism, LSW I, p. 700)

1. Control of the big monopoly houses over the economic system

Very big capitalist enterprises have been formed as a result of the concentration and centralisation of capital. These big capitalists have established their complete control over total production in every industry. Since it is not possible to eliminate these big capitalists, they established a monopoly hold over each industry through monopoly agreements and mergers. Cartels, syndicates and such other big capitalist enterprises have established their monopoly through agreements. In a trust various monopoly houses are merged. These mergers can take place either voluntarily or forcibly by the big enterprises. Such monopoly enterprises can determine the price of commodities. (This does not mean that it does not lose its relationship with value). They appropriate monopoly profit by selling commodities at prices higher than their value.

Lenin said that these big monopoly houses, control the economic system as a whole. Does the formation of such big monopoly enterprises mean the disappearance of competition for market? Absolutely not. On the contrary competition has reached a new and higher stage. The competition for sources of raw material and market between different monopoly enterprises has intensified further. On the other hand, competition has started among monopoly houses to have control over those enterprises. There will be competition between monopoly enterprises and other enterprises.

Anarchy in capitalist production does not disappear with the formation of big monopoly enterprises. It is a fact that the monopoly enterprises have an assessment on market conditions, supply and demand. But the anarchic conditions will not be eliminated because these monopoly enterprises carry out production separately. In order to protect their monopoly profits the monopoly enterprises obstruct the introduction of new technical know how and the expansion of production. This tendency will be as much as the control the monopoly houses possess. It is true that monopoly profit will increase with the increase in the strength of the monopoly practice. But the monopoly itself has become

an obstruction for the accumulation of capital and expansion in that sphere. They are in search of profitable spheres to invest the capital accumulated by monopoly profits. Accordingly monopoly was established over the non-monopoly sectors. When such opportunities are not there it is forced to penetrate into other spheres under other monopoly houses. Therefore with the increase of monopoly the search for investment also increased. This tendency has become the reason for the creation of other basic economic features of imperialism such as export of capital, formation of international monopoly houses and imperialist wars.

The birth of monopoly capitalism has stretched to its extreme the fundamental contradiction i.e., the expansion of the socialisation of production and the private ownership of the means of production to its extreme point. It prepares the material conditions for social ownership of the means of production.

The Economic strength of Monopoly Enterprises:

The economic system in imperialist countries such as US, Germany, Britain, France, etc. is in the hands of a few monopoly corporations. In fact the capitalist state in the imperialist stage became an administrative wing of these monopoly enterprises.

A few hundred monopoly corporations together have control over the world economic system. The total sales of 200 monopoly corporations has increased from 29.2% of GDP in 1982 to 26.8% in 1992. This explains the strength of monopoly corporations. Out of these 200, 176 or 86% of the corporation belong to USA, Germany, Japan, Britain and France. It is significant that while the world economic system is contracting, the assets of these corporations are increasing. About 5% to 10% of the corporations appropriate about 47% of the profit of these monopoly corporations.

In Britain the share of 100 very big monopoly corporations in industrial production was 16% in 1907. It increased to 24% in 1935, 32% in 1958 and 46% in 1970. In the US assets of 100 big corporations was 34% of total assets in America in 1925. It became 48.4% in 1968. Similarly, 200 big monopoly corporations have acquired 45.8% of total assets of America in 1929. It increased to 60.4% in 1968. Of the 100 most powerful monopoly corporations 43 are from America alone (57 be-

long to the other countries). Of the 50 biggest corporations 21 belong to America. Tremendous concentration has taken place in the trading sector after World War II. In Japan more than 2/3rds of the GNP is under the ownership of 9 shogogoshas (monopoly trading corporations). They control 52% of exports and 63% of imports into that country. Conglomerates are a new form of monopoly has developed in the 1970s and 1980s, which comprise finance, service, agriculture, industry and all other sectors.

In the process of the concentration of capital the organisation of capitalist enterprises has also changed. Today joint stock company is the general form of organisation of a monopoly corporation. The monopoly capitalist can exercise control over capital many times more than his own through such joint stock companies. Lenin, in his "*Imperialism*" has said to have control over a corporation it is sufficient to have 25% of capital of that corporation. Today to have such a control it is sufficient to have a 5% to 10% of capital to control a corporation.

The monopoly capitalists who control joint stock companies pay only a part of profit as dividend (profit paid to a shareholder is called dividend) the remaining profit is used for accumulation of capital in the name of reserve fund. (It could be invested in the same corporation or another corporation under his control or it could be deposited in a bank under its control). The joint stock companies have further increased capitalist accumulation. The monopoly capitalists who are directors and executives of Joint Stock Companies always pray for the expansion of capital.

2. Financial oligarchy of a few financial capitalists

Finance capital was formed in the process of transformation from free trade stage to monopoly. It established its hegemony over economic life. Finance capital was formed by the merger of banking capital and industrial capital.

We have already seen that the banks mobilise capital and lend to industrial capitalists as loan capital and receive bank profit by the difference in rate of interest. But under imperialism the banks play a different and very important role. Now banks do not confine to their traditional role of an intermediary, due to the huge funds they are providing

to meet the investment expenditure which acquired gigantic proportions with the continuous rise of organic composition of capital. They dominate over industrial capital. Banks have played a key role in the formation of big monopoly corporations. We must keep in mind that even in the banking sector monopoly corporations have been formed. Banking capital and industrial capital have mutually merged. It can be seen that the big monopoly corporations are controlling the industries as industrial capitalists and the banks as banking capitalists.

Lenin described finance capital as:

“The concentration of production; the monopolies arising there from; the merging or coalescence of the banks with industry— such is the history of the rise of finance capital and such is the content of that concept.” (Imperialism ..., P. 46)

With the formation of finance capital, the ownership of capital is completely separated from production. These finance capitalists who do not have any role in the actual conduct of production have gained control over the sphere of production. In the stage where banking capital dominates over industrial capital, finance capital has become the general form of monopoly capital. The bourgeoisie, in Lenin’s words “live by clipping coupons”, and has become a parasitic class.

Stock exchanges have become the sphere of operation of finance capital. The accumulated surplus value which could not be invested as industrial capital has concentrated on speculation. Capital considers speculation as the most profitable sphere. Today speculation has expanded into financial and commercial sectors too. It has totally converted the economic system into a casino.

This avatar of finance capital is the most suitable form for colonial and semi-colonial exploitation and oppression.

“ It is characteristic of capitalism in general that the ownership of capital is separated from the application of capital to production, that money capital separated from industrial or productive capital, and that the rentier who lives entirely on income obtained from money capital, is separated from the entrepreneur and from all who are directly concerned in the management of capital. Imperialism, or the domination of finance capital, is the highest stage of capitalism in which this sepa-

ration reaches vast proportions. The supremacy of finance capital over all other forms of capital means the predominance of rentier and of the financial oligarchy; it means that a small number of financially “powerful” states stand out among all the rest.” (Ibid, P. 58).

3. Export of Capital

By 1870s the capitalist system entered a period of protracted crisis. A large amount of surplus value accumulated could not find a profitable sphere for investment. The limited purchasing power of the population has become an obstacle for the expansion of production in the national economic system.

Moreover, the tendency of the falling rate of profit is also expressed very strongly due to an increase in the organic composition of capital.

Under these conditions the export of capital has gained importance. Lenin described that the export of capital rather than the export of commodities had become one of the basic economic features of capitalism at the stage of imperialism. The export of capital has helped formation of monopoly corporations and their operation on an international scale.

Particularly, the export of capital to colonial, semi-colonial and backward countries has become a main trend. The availability of cheap raw material and labour power in colonial and semi-colonial countries assured a higher rate of profit. Moreover, the conditions in backward countries provided an opportunity to gain a higher rate of profit because of the relatively low level of the organic composition of capital and technological methods.

Therefore the export of capital has increased rapidly in imperialist countries. (Even though there was the export of capital during the Laissez Faire period it did not acquire such importance). The export of capital takes place in three main forms.

1. Loans, aids, grants given to governments and institutions.
2. Investment in shares, securities and funds, etc.
3. FDI (Foreign Direct Investment)

The export of capital not only opened new avenues for exploitation of colonies and semi-colonies, but it also paved way for neo-colonialism and neo-colonial methods. It created a new chapter in looting

backward countries and brought them under its political and economic slavery.

The FDI, has increased two-fold during the period between 1970 to 1980. FDI has reached 2 trillion dollars level in 1992. Between 1983 to 1992 the growth rate of FDI was four times faster than world production and three times faster than world trade.

4. Emergence of transnational Corporations

In the beginning the formation of monopoly corporations was limited to the internal market of a particular country. As a result of the export of capital and an increase in the strength of finance capital the monopoly corporations have increased their strength. TNCs have emerged. The emergence of TNC has paved way for the severe and more cutthroat competition which has been unprecedented in the capitalist system. The TNCs have divided the world market and sources of new materials among themselves. Competition among monopoly corporations have emerged at an international level. Along with the TNCs MNCs have also emerged. The capitalist state played a key role in the expansion of the influence of the monopoly corporations and TNCs. Agreements and mergers are taking place among monopoly corporations at the international level. It takes the form of trade agreements and the pacts between governments. Competition and pacts between monopoly corporations pave the way for treaties, blocs and alliances between imperialist countries.

In the beginning of the 1990s there were 37,000 big TNCs, controlling the international economic system. Out of these 24,000 corporations belonged to 14 major imperialist countries.

5. The territorial division of the world and conflict for its redivision

The division of the world between the major imperialist forces was completed by the beginning of the 20th century. They divided the backward countries among themselves as colonies, semi-colonies and zones of influence and to acquire new markets a redivision was inevitable. A situation arose wherein if any imperialist country wants to expand its market it must enter into a conflict with other imperialist force. That means competition reached the level of world War to achieve the

redivision of colonies. The two world wars were conducted for the redivision of the market. The capitalist system under imperialism tries to continue its existence through destructive wars. Therefore the danger of wars are inevitable as long as imperialism exists. Because of this Lenin said “*Imperialism means war*”.

Uneven Development of Capitalism

Lenin explained that the development of capitalism will be uneven in the imperialist stage. During the Laissez faire stage development of capitalism was uneven and more so at the stage of imperialism. But in the imperialist stage, the capitalist system becomes parasitic in nature and therefore Lenin said that the development of capitalism will be uneven. Due to this unevenness the capitalist system develops rapidly in some countries while it lags behind in some others. The development what so ever witnessing in the stage of imperialism is mainly possible through colonial and neo-colonial exploitation of backward countries and by creating vast regions of backwardness. Thus along with the growth of internationalisation of capital the pauperisation of countries and regions itself taking place. So the world is becoming more and more uneven in the process of continuation of capital’s rule over world and its parasitic development. Its colonial and neo-colonial plunder and using war as means of expanding market only makes the parasitic nature of development of capitalism in the age of imperialism.

Lenin clearly explained that the uneven development of capitalism in the imperialist stage was parasitic and moribund. More important, it had become the basis for the development of revolutionary theory for the world socialist revolution. Based on this principle uneven development, he came to the conclusion that in the epoch of imperialism socialist revolution is possible in one or a few weak capitalist countries.

Stalin explained succinctly about the principle of uneven development.

“What is the law of the uneven development of capitalism, whose operation under the conditions of imperialism leads to the victory of socialism in one country?”

“Speaking of this law, Lenin held that the old, pre-monopoly capitalism had already passed into imperialism; that the world economy is

developing in the conditions of a frenzied struggle between the leading imperialist groups for territory, markets, raw materials, etc.,; that the division of the world into spheres of influence between the imperialist groups is already complete; that the development of capitalist countries does not proceed evenly, not in such a way that one country follows after another or advances parallel with it, but spasmodically, through some countries which had previously outstripped the others being pushed back and new countries advancing to the forefront; that this manner of development in the capitalist countries inevitably engenders conflicts and wars between the capitalist powers for a fresh redivision of an already divided world; that these conflicts and wars lead to the weakening of imperialism; that owing to this the world imperialist front becomes easily liable to be breached in individual countries; and that because of this the victory of socialism in individual countries becomes possible.

“We know that quite recently Britain was ahead of all other imperialist states. We also know that Germany then began to overtake Britain and demanded a ‘place in sun’ at the expense of other countries and in the first place of Britain. We know that it was precisely as a result of this circumstance that the imperialist war of 1914-18 arose. Now, after the imperialist war, America has spurted far ahead and outdistanced with Britain and the other European powers. It can scarcely be doubted that this contains the seeds of great new conflicts and wars.” (cited by George Thompson, Marx to Mao, P. 80).

Stalin’s explanation is not only relevant for condition prevailing then, but was also relevant for the whole epoch of imperialism. Today the collapse of soviet social imperialism the weakening of the American super power, growth in the influence of Japan and Germany, the increasing conflict between imperialist forces for redivision of the market and such other developments clearly establish that they are manifestation of uneven development.

Specific Character of Imperialism

Lenin said that capitalism in the imperialist stage had threefold specific character. Those three specific features are:

1. Monopoly capitalism

2. Parasitic capitalism

3. Moribund capitalism

1. Monopoly capitalism: Lenin said that monopoly is the basis and essence of the capitalist system under imperialism. The entry of the capitalist system into the stage of monopoly means that the fundamental contradiction, i.e., the socialised nature of production and the private ownership of the means of production has reached a totally antagonistic level. It means the society has prepared itself for socialist transformation. That is why **imperialism is the eve of the socialist revolution.**

2. Parasitic Nature: Lenin described the capitalist system in the imperialist stage as having a parasitic character. It means that the capitalist system has lost its vitality. It can only stay alive as a parasite. The parasitic nature of the capitalist system under imperialism can be seen clearly in the aspects given below.

i) It obstructs the development of productive forces. Monopoly capitalism prevents new scientific inventions and production methods for the sake of monopoly profit. During the Laissez Faire stage the capitalist class strived to develop productive forces by introducing new inventions in and new methods of production to get extra surplus value. But monopoly capitalism, to protect its monopoly profits, becomes an obstacle for the development of the productive forces.

ii) The oppression of colonies reaches up to the sky under imperialism. Oppression of colonies has become a fundamental aspect for the perpetuation of the capitalist system. Plundering of colonies through neo-colonial methods and the dependence of the capitalist system on this plunder points out the increasing parasitic nature of imperialism.

iii) The monopoly capitalist class which became billionaires owning finance capital completely lost relations with production and became a lazy class. It became a class of rentiers living on dividends. Speculation in stock exchange finance- became omnipresent. It has revealed that the parasitic nature of monopoly capital has reached its peak.

3. Moribund Capitalism: Lenin described capitalism in the imperialist stage as moribund capitalism. It means the stage where capitalist relations which became a hurdle for the development of produc-

tive forces and society as a whole will be shattered the moribund nature of capitalism manifests in the aspects given below:

i) The capitalist class has acquired the character of becoming highly reactionary and an absolute hurdle for development. Capitalism under the imperialist stage bade farewell to its former democracy. It desires to introduce a political system similar to the old reactionary autocratic dictatorship.

Any class which exits from the centre stage of history adopts political reaction. The capitalist class has changed its political philosophy and ideas into militarism national chauvinism and fascism. Fascism and fasicisation of state of capitalism is the manifestation of political reaction of capitalism in the era of imperialism.

ii) Monopoly capital bought over the aristocratic section in the working class with its monopoly profits and the loot of colonial and neo-colonial countries. This section of labour aristocrats is used as the basis for social democracy and revisionism in the working class movement which aims to thwart the revolutionary overthrow of capitalist system and thus the class rule itself.

Chapter IX

General Crisis in the Era of Imperialism

The capitalist system got immersed in the general crisis from the day it entered the stage of imperialism Lenin described capitalism at the imperialist stage as parasitic and moribund. Parasitic capital and moribund nature of capitalism clearly brings out the permanent crisis in the capitalist system. With the entry to the stage of imperialism, capitalism entered a violent and explosive stage such as the two world wars many local wars, peoples rebellions in various parts of the world, etc. The general crisis of imperialism manifests in the aspects given below:

1. The capitalist system has become a world economic system. Today the crisis is not limited to any one country.
2. It envelopes the whole world. Today's crisis are not only industrial in nature. It also spreads to agriculture, finance, etc.
3. The character of periodic crisis has changed under the conditions of general crisis. The duration of depression has increased. Recovery and boom need not follow after the stages of crisis and depression. Continuation of stagnation for a long period under depression has become the main trend. Even though recovery and boom have occurred they stay only for a temporary period. Boom in particular is not only limited for a temporary period. It is also limited to a few sectors or a few countries. Such recovery and boom occur during external stimulation such as war. In a sense crisis after crisis has been continuing for a long period and it has become a long-drawn crisis. Crisis, depression and stagnation have become the general trend of the capitalist system today.
4. The general crisis is not just limited to the economic field alone. It spreads to the base and superstructure of capitalist society. It is a universal crisis.

The growth of a severe economic crises during conditions of general crisis and paving the way for the tendency of world wars and world

wide revolutionary crisis is manifested. Keeping such tendencies in mind the different periods of general crisis are identified as stages of general crisis.

Phases of General Crisis

First phase of general crisis

With the beginning of world war I the first stage of general crisis commenced. Imperialism partook in the world war due to severe economic crisis in the first stage has not been able to come out of the general crisis and has on the contrary only further weakened. With the success of the socialist revolution in Russia the imperialism had been further weakened. The international working class movement failed to utilise the worldwide revolutionary crisis which followed the world war imperialism was able to recover by utilising the interval. But the long drawn tendency of crisis continued even after the defeat of revolution in Europe by 1923.

1924-1929 Relative stability

Capitalism was able to gain relative stability during the first stage of general crisis from 1924-1929. Explaining the meaning of this stability Stalin said:

“Stabilisation is the consolidation of a given position and further development. World capitalism has not only consolidated itself in its present position; it is going on and developing further, expanding its sphere of influence and increasing its wealth. It is wrong to say that capitalism cannot develop, that the theory of the decay of capitalism advanced by Lenin in his pamphlet “Imperialism” that the growth of capitalism does not cancel, but presupposes and prepares the progressive decay of capitalism.” (On Opposition p-192-93)

Factors contributed to relative stability:

1. Civil war in Russia, reactionary war against Russia, reactionary terror in Hungary and Poland particularly the defeat of revolutions in countries neighbouring Russia.
2. Betrayal of social democracy. Hoodwinking the working people by imperialism in collusion with social Democracy

by treacherous methods.

3. Development of American imperialism as reserve. Loans and credits given by America reconstructed capitalism in Europe.
4. Further intensification of oppression on the colonies.

Second phase

The second phase of general crisis began with the commencement of world war II. We must remember that the general crisis continued between the two phases for two decades.

The second stage continued till the completion of revolutionary upsurge followed by the war and recovering capitalism from the crisis and its ability to establish relative stability. We may say that the second stage continued till the mid 1950s.

Imperialism was very much weakened after the world war II. The general crisis further expanded very deeply. The great imperialist powers such as Britain, Germany, Japan, France and Italy suffered severe setback. It was America alone that could strengthen itself during the war.

The imperialist market was scattered and restricted. The socialist camp emerged and as a result of this there was the disintegration of the all embracing world market of imperialism. The trend of militarisation of the economy in capitalist countries was strengthened to increase productive capacity and surplus. America became the model for other countries in this matter. We must understand that militarisation was not just for the sake of the market. Instead it was undertaken in order to stabilise the economic system.

Uneven development of imperialism continued further. America emerged as a super power.

On the other hand national liberation struggles in colonial and semi-colonial countries shook imperialism. Imperialism was forced to abandon colonialism and adopt neo-colonial methods. The socialist camp and the anti-imperialist democratic movements were strengthened.

Capitalism was able to develop for 18 years from 1955 to 1973.

Factors contributed to the economic development from 1955 to 1973:

1. Restoration of capitalism in Soviet bloc countries.
2. The rebuilding of the war-ravaged economies of West Europe and Japan.
3. Major regional wars in Korea and Indo-China and scores of local wars which generated a continuous demand for arms and other industrial goods and machinery from the imperialists.
4. The emergence of peace-time permanent arms economies.
5. The expansion of new markets in the Third World.
6. Rapid development of technology both in old industries and creation of new industries that led to rapid increase in productivity.
7. The most important of all, state intervention in the economies both as buyer and consumer and enormous credit expansion in all sectors.

The above mentioned aspects contributed to prevent general crisis from further intensification, providing a relaxation for the capitalist system.

“After 18 years of boom, the longest in the history capitalism, it once again fell into a prolonged stagnation from 1973. The boom itself was illusory in character for it was based on wars, military build up, state funding and regulation, and through a ballooning of debt and speculation. Unemployment and under-utilisation of capacity continued to remain in effect throughout the period of the boom”

The aspects contributing to the emergence of general crisis after world war I is continuing to exist. Therefore after this exceptional boom capitalism is enmeshed in another serious crisis after 1973. Capitalism is unable to recover from that crisis even today. All the measures adopted by them to come out of this crisis have already backfired. This crisis is becoming more and more acute. Therefore we can say that there are opportunities for the entry into the third phase of general crisis.

State and Imperialism

The capitalist state plays an active role in the interest of the bourgeoisie since its inception. It co-operates for rapid accumulation of capital during the Laissez Faire stage. (We must remember that the state played an important role in the primitive accumulation of capital). We can see the changes in the methods of the capitalist state in the interests of the bourgeoisie.

The state has close connections with monopoly capitalist groups in imperialist countries. The methods of a capitalist state play a key role in the development of capitalism in the imperialist stage. The state has played an important role in the formation of monopoly corporations and TNCs. Not only that, it entered into two world wars for the redivision of the world.

Militarism, chauvinism are the specific features of capitalism in the imperialist stage. They are born directly and out of competition and in the interests of monopoly capital. The capitalist state militarises the capitalist economic system. A large amounts of military expenditure helped the expansion of capitalist production after world war II.

State expenditures have considerably helped development after the world war II period. The capitalist state has taken an important role in implementing the Keynesian economic policies in order to prevent a revolutionary upsurge after world war II and they adopted the slogan of a 'welfare state'. Particularly state capitalism provided a respite for the bourgeoisie to come out of its crisis. After World war II, the state has played a very basic role in sustaining long term steady growth based on debts and deficit budgets.

Once again the state played a pivotal role after the intensification of crisis from the 1970s onwards. In order to transfer the burden of economic crisis on the working people and backward countries, the state launched an attack on the working class in the name of privatisation, deficit financing, and bid farewell to keynesian methods and brought Reaganism, Thatcherism, etc., in the name of bringing back Laissez Faire. On the other hand, in order to plunder the backward countries with the help of world bank and IMF, structural adjustment programmes, liberalisation were initiated. In the name of globalisation

the policies of monopoly capitalists are imposed on the working class in the capitalist countries and the masses of semi-colonial countries.

Naturally cruel exploitation and oppression carried out by monopoly capitalists worldwide and the intensification of general crisis has paved way for social unrest and class struggle throughout the world. The state is further fascisised in order to face the upsurge of class struggles and peoples struggles. The capitalist state in the imperialist stage is an example of the moribund nature of capitalism. Globalisation reflects the intensification of the general crisis.

Appendix I

Classical Political Economy

“..... it first took shape in the minds of a few men of genius towards the end of seventeenth century, political economy in the narrower sense, in its positive formulation by the Physiocrats and Adam Smith, is nevertheless essentially a child of the eighteenth century, and ranks with the achievements of the great contemporary French Philosophers of the Enlightenment, with all the merits and defects of that period. To them the new science was not the expression of the conditions and needs of their epoch but the expression of eternal reason; the laws of production and exchange it discovered were not laws of a historically determined form of those activities, but eternal laws of nature; they were deduced from the nature of the man. But when examined more closely, this man proved to be the middle burgher of the time in the process of becoming a bourgeois, and his nature consist in manufacturing and trading in accordance with the historically determined conditions of that period.” (Engels, Anti-Duhring, pp. 192-93)

Any thought of political economy represents a class interest and a particular relation of production. Classical school of political economy, as it emerged during the period of manufacturing, it not only represented the capitalist relation of production, but also it championed the interest of manufacturing bourgeoisie. This school of political economy developed by absorbing positive economic concepts of its predecessors - Mercantilists and Physiocrats. In the course of its development classical economists had to refute some of the erroneous concepts of their predecessors.

During seventeenth and eighteenth centuries along with the expansion of British overseas trade Mercantilist economic thought flourished. Mercantilists represented the interest of merchants and traders of that time. They maintained that nation earned wealth through export as they mistook gold for wealth. And they favoured restrictive measures for maintaining balance in trade. Gold and silver used as money were considered by them as natural objects with strange social properties. They could not understand that value of commodity does not originate in the process of exchange. They understood that commodity prices are

dependent on the prices of labour - wage. The equivalent form of commodities was developed in money by them. Marx says, "*the mercantilists lay special stress on the qualitative aspect of the expression of value, and consequently on the equivalent form of commodities which attains its full perfection in money.*" (Capital I, p. 66)

The economic thought of physiocrats emerged in France during this period. They conceptualized the production and circulation of a country's total wealth and presented their theory explaining the total process. Eventhough it based on agricultural production, it related other aspects like rent, wages etc. to surplus (value) produced in agricultural sector. To them surplus value has no existence other than rent, and agricultural labour is only productive labour as that alone yields surplus (value). But physiocrats considered this surplus as natural surplus – it grows out of land and not out of society.

During this period William Petty, the founder of modern political economy, put forward his theories and concepts regarding the various aspects of political economy. According to him labour is the father of material wealth and earth is its mother; the value of average daily wages of labourers is to be determined considering the labourers' requirements i.e. to live, labour, and generate. His most important contribution was the concept of value. Engels explains "*Petty gives a perfectly clear and correct analysis of the magnitude of value of commodities. In illustrating this magnitude at the outset by the equal value of precious metals and corn which cost the same quantity of labour, he says the first and last theoretical word on the value of the precious metals. He also lays it down in precise and general way that the values of commodities are measured by **equal labour.***" (Engels, Anti-Duhring, P. 295-96)

Adam Smith adopted a logical analysis of economic system based on class which was introduced by physiocrats. And he gave an analysis of the new industrial society on the basis of this concept. David Ricardo further developed these ideas with an analytical frame work. In spite of divergences of view point there was common frame work of ideas to all the economists of this school of thought.

What are those common ideas?

1. To analyse the economic characteristics of social classes is the

basic concept of classical economists. According to them the social structure was composed of workers, capitalists and landlords. The consumption of workers was at subsistence level, the function of capitalist was to accumulate surplus, and the consumption of landlords was a deduction of this surplus. The total product is divided into three parts i.e. the rent of land, wage of labour and the profit of stock. These three parts are utilized by three classes in different ways. So this division of total product governed the development of the economy. According to Adam Smith this is the “three great orders” of society.

Accepting similar notion Ricardo expressed that “*to determine the laws which regulate this distribution is the principal problem in political economy.*” Both Adam Smith and Ricardo were in favour of rising bourgeoisie. Ricardo appealed to withdraw all restrictions that hampered free play of self-interest. But whose self interest? It was of traders and employers of labours and not of workers. Adam Smith maintained the wealth of nation only include the surplus of production over cost, as the surplus of production could be invested again for its ever-widening expansion and not the consumption of workers.

2. The classical economies considered the labour or more accurately work as the only fundamental agent of production. Other than the “free gift of nature,” it is only human work that creates wealth. Capital is the command over resources. And capitalist use this to have command over labour.

To continue the process of production it is necessary to pay in advance to the workers before completion of the production. So capital is a wage fund. And a machine is considered as the embodiment of past expenditure from these wage fund.

3. For Ricardo surplus is the volume of commodities that remains after providing the required support to workers who produce it. His argument was that the level of the wage is a deduction from total production which is determined technically. So, higher wage means decrease in surplus. He did not conceptualize precisely what should be the physical needs of subsistence.

4. The classical economist tried to find out “laws of motion” of capitalist economics. Their analysis was necessarily dynamic as they

were very much concerned about the ever-increasing accumulation of capital which could provide more opportunity to employ labour and to produce more machines. They also considered non-reproducible resources, in particular, land as a problem in a growing economy.

Here it is clear that the classical economists failed to understand the origin of profit (surplus) and began their analysis taking into account fragmented particular forms of surplus as fixed forms e.g. rent, profit etc.; they considered it as a natural law that the wage should be settled at a level of 'subsistence minimum'. But they could not define this 'subsistence minimum.'

"Economists like Adam Smith and Ricardo, who are the historians of this epoch, have no other mission than that of showing how wealth is acquired in bourgeois production relations, of formulating these relations into categories, into laws, and of showing how superior these laws, these categories are for the production of wealth to the laws and categories of feudal society. Poverty is in their eyes merely the pang which accompanies every childbirth, in nature as in industry." (Marx, Selected Writings, Edited by David McLellan, p. 211)

Accumulation of Wealth

The emergence of industrial capitalism, even at its primary stage, had to face some problems due to Mercantilism. Adam Smith opposed the narrow mercantilist policies and considered those as an impediment to growing wealth. He argued that the basis of technical advance is division of labour and the division of labour depends on the extent of market which is necessary for the disposal of the increased output. He attacked the restrictive policies of mercantilists which limited the growth of market.

To Adam Smith it is not necessary to reduce wages for increasing the surplus per man employed. He proposed it is better to increase the productivity of the working time at a given rate of wage. He claimed that the nation as a whole would be benefited through technical superiority of capitalist production. But he could not realize that technological development depends on the very process of extracting a surplus for accumulation. So technological relation alone cannot increase wealth.

Distribution and Prices

What are those forces that determine the distribution of income between the three classes of society – workers, landlords and capitalists? This question was raised by all the classical economists including Adam Smith as they considered this as fundamental factor to understand the economic behaviour. In spite of this realization even Adam Smith was unable to present a tenable theory of the distribution of the surplus between profit and rent. It was Ricardo who first formulated a theory.

Ricardo took it for granted that landlord took a share of profit as rent of land and consumed all, while the greater part of the profit would be saved by the capitalist for reinvestment. This reinvestment will further help increase the employment and expand production.

This model based on the then situation of England. Landowners formed out their land; the capitalist farmer contracted to pay rent and employed wage-labour. The surplus after paying the wage bill shared between the landlord and the capitalist as rent and profit.

In this model Ricardo shows the determination of the rate of profit on capital. Profit per man year and the investment necessary to employ a man are presented in terms of quantity of corn. The ratio of corn profit to the stock of corn is the rate of profit on the capital invested.

This model exposes the role of rent. Landlords consume the total corn received as rent; the farmer being a capitalist keeps not only a portion of his harvest which he advanced last year but an additional amount too, so that he can employ more labour next year. Due to total expansion of employment the differential advantages of better land grows and as a consequence of competition rent increases. Since the wage is at subsistence level and cannot be lowered, output per man, net of rent, diminishes and rate of profit falls.

Prices

Malthus pointed out an important deficiency. In every sector of economy the produced output and inputs consist of various commodities. Wages also consist of various commodities. So to find out the rate of profit it is necessary to compare heterogeneous bundles of commodities which comprise wages, output and total investment. To solve this

problem it becomes necessary to find out a unit of value to measure, as a single quantity, the mass of heterogeneous commodities produced. In another way, that is in term of their relative prices (their ratios of exchange) heterogeneous commodities can be reduced to homogeneous measure. But then also it is necessary to determine the capitalists' profit. So the relative exchange values of commodities with each other and with labour must be a part of any theory of value. This is because, the prices of commodities also depend on the rate of profit, as the cost of produced inputs includes the profit of the capitalist as a return in his investment.

Here arises another complications due to interdependence of prices and the rate of profit.

Adam Smith also had to face this sort of problem. As a solution to this problem he formulated a labour theory of value. This theory introduced a concept of "just price." It states that when the labour is the only cost, commodities should be exchanged at prices corresponding to the labour time embodied in them.

Then, why does a capitalist conduct production? He must have profit i.e., an amount of surplus after paying the cost of materials used in the process of production, and wages to the labour from the total product manufactured. So the value, which labourers add to materials, consists of two parts –one pays their wages, the other provides profits to their employer, upon the whole stock of materials and wages which he advanced.

Considering the importance of this formulation Marx commented: *"Adam Smith however, had already stated the correct formula. Important as it was, to resolve value into labour, it was equally important to resolve surplus value into surplus labour and to do so in explicit terms."* (Marx, S.W, Edited by David Mc Lellan, p. 400)

But this theory of Adam Smith cannot solve the problem of the relation of rate of profit to prices and the determination of rate of profit.

Ricardo tried to solve this problem by dividing all commodities into two groups –produced commodities and scarce commodities. Commodities having utility derive exchange-value from two sources – scarcity and the quantity of labour necessary to produce them. As supply of

scarc commodities can not be increased, their value cannot be decreased. The value of these commodities is completely independent of the quantity of labour originally required to produce them and varies according to their demand. This group of commodities, however, form a small portion of the mass of commodities exchanged in the market. The rest portion of the commodities can be obtained by labour, and their quantities can be increased employing labour with the use of other produced commodities (such as machines). So these commodities are not limited in their supply. Ricardo maintains that the prices of produced commodities are dependent on the rate of profit. The employer must get back the amount paid for wages, and necessary profit on stock from the prices of these commodities. Ricardo observed that – 1) for technical reasons production of different commodities require different length of time for which advances have to be made; 2) a uniform rate of profit in all branches of production likely to be established due to competition between capitalists; and 3) the rate of profit per annum is simply the amount of profit earned per annum divided by the value of the investment that has been made for production, the share of profit in the value of output of different commodities varies in accordance with the value of investment required to employ a man in producing them.

So rate of profit being uniform, the share of profit will be higher of those commodities whose production requires higher value of investment per man. Thus it is the rate of profit on which the pattern of relative price depends. Marx observed “*classical political economy nearly touches the true relation of things, without, however, consciously formulating it. This it cannot so long as it sticks in its bourgeois skin.*” (Capital, Vol.I, P. 507)

It is observed that the classical political economy correctly understand – that it is labour which produces values, that rent, profit etc., originate from the productiveness of labour; that commodities exchange at values which are determined by the labour required for their production; that surplus is a value of commodities that remains after providing required support to workers who produce it; and that inspite of some confusion and inadequacy, as Marx noted, Ricardo defined the value of labour (average wages) correctly.

But they failed to understand the origin of surplus value. Without

an analysis of the origin of surplus value, and the very method of extracting the same in the process of production, the distinctive nature of capitalism could not be revealed. Both Adam Smith and Ricardo introduced their concepts about the “theory of value.” These were marked by some positive development, even then, these efforts failed to solve the problem. The reason is simply that they did not pay attention to proper problem, i.e., in a capitalist economy the method of extracting surplus value is covered under the surface phenomena of wages and prices which are fixed in the market by bargains freely made.

Marx adopted many of the classical concepts and theories, analysed those critically and developed Marxist political economy penetrating those surface phenomena. Taking over the classical theory that commodities exchange at values which are determined by the labour time necessary to produce them, Marx deduced that the commodity labour (labour power) must also exchange on the same basis. It follows that the labour value of labour power is the labour time required for the production of those commodities which are supplied to workers for their subsistence. It reveals the unique quality of labour which produces more than its own value. So the capitalists exploit the labourers appropriating a part of the value produced by them. This analysis penetrates the surface phenomena and exposes the origin of surplus value. This gave a new direction to political economy, and further developed as Marxist Political Economy.

Appendix II

Inflation

Rise in prices of all commodities or the universal increase in the price of commodities in the economic system is called inflation. The demand for means of production and labour power was more during the expansion of production in the Laissez Faire stage. Unemployment almost disappeared. When compared with the depression period wages increased considerably. The demand for essential goods as a whole also increased. The prices of all commodities along with wages increased due to the all round expansion of the economic system. Bourgeois economists called the universal increase of prices as inflation. Keeping in mind the definition, inflation is related with economic development and expansion. When economic system is under depression and in the stage of crisis the development takes place in a diametrically opposite direction. Thus there will be an all round decrease in prices of commodities. This is called as deflation.

But today inflationary situation that we are witnessing every day is not linked with economic development and expansion. Today all governments throughout the world circulate more money to meet their necessitation without having corresponding increase in production. As a result of this the value of currency decrease causing all round increase in prices or inflation. Therefore, inflation which we witness today is caused by the financial policies of the ruling classes.

Today when capitalism is under a general crisis, economic depression and stagnation have become general features of capitalism. Particularly after the 1970s a severe condition of depression and economic stagnation has been continuing. Inflation which was linked with economic expansion earlier is today accompanied by continued economic depression and stagnation. This has given rise to a new phenomenon called stagflation; i.e., stagnation plus inflation. Today inflation is caused chiefly by the circulation of currency by bourgeois governments in amounts more than necessary. Let us examine inflation caused by the circulation of more quantity of money than necessary.

When paper money was introduced it was clear that they were just

symbols of real money (gold or silver currency). Paper currency can be changed to real money, i.e., either gold or silver, whenever it is necessary. In fact only by giving such an assurance could paper money win the acceptance of the people as real money.

For example,

1 Gold Rupee = 1 Paper Rupee = 10 bags of grains.

In this exchange the value of 10 bags of grain is equal to the value of one gold Rupee. That means, the socially necessary labour time to produce 10 bags of grain is equal to produce one rupee gold coin. Exchange takes place between equal values. Paper money has entered this exchange as the representative or symbol of the gold rupee. The role played by the gold rupee is now taken over by the paper rupee. The peasant sells 10 bags of rice and receives one rupee of paper money. He purchases the necessary commodities with that paper money. That is, one rupee of paper money performs the role of one rupee of gold money. But the paper money does not have value on its own. It must be understood that it is only a symbol of the value of gold money.

Has the peasant lost anything by using paper money instead of gold money as a means of exchange? No.

Everybody in society recognise paper money as having the value of gold money. Therefore there is no loss in using paper money.

It was said that earlier the price of 10 bags of rice was one rupee of gold money. But now it is said to be equal to that of one rupee of paper money.

In the above example, paper money was introduced in place of gold money. That is we have examined that the amount of paper money that was in circulation was equal to the amount of gold money in circulation and transaction.

Let us see what happen when two rupees of paper money is introduced instead of one rupee of gold money (or introducing double the amount of paper money than the gold money in circulation). The price of gold or grain does not change. Hence

1 gold Rupee = 10 bags of grain

But,

1 gold Rupee = 2 paper Rupees

Therefore,

1 gold Rupee = 2 paper Rupees = 10 bags of grain

Now the price of 10 bags of grain has become 2 Rupees of paper money. That is, the price has increased equivalent to the increase in the circulation of paper money.

In other words, the value of paper money falls to the level of the necessity of increase in paper money

Earlier,

1 Rupee paper money = 10 bags of grain.

After doubling paper money

2 Rupee of paper Money = 10 bags of grain

or

1 Rupee of paper money = 5 bags of grain

That means the value of paper money has decreased by 50%. The value of paper money issued by the government or the purchasing power has decreased by 50%. Then why does the government circulate papers money more than what is necessary for circulation?

After world war I, governments abolished the opportunity to exchange paper money into gold or silver money. But because of its usage for many years people forgot that paper money was only a symbol of value. They considered papers money itself as having real value. Utilising this condition the governments circulated money without paying any heed and created inflation.

We know that governments all over the world adopt a policy of deficit budgeting. That is, they spend more than their income. They mobilise money to compensate the deficit by circulating more money. We know that the magnitude of value of commodities does not increase just by increasing paper money. The value of paper money decreases. That means that the value of money in the hands of the people declines. The value lost or the purchasing power lost by the people is appropriated by the government. To understand this we have to look into the effects of reduction in purchasing power or the reduction of value of

paper money on the various classes. Prices increase because of the decrease in the value of the rupee. The price of the means of production is increased. Production expenditure of the capitalist increases. The price of commodities produced by them is also increased. Therefore there will be no loss for the bourgeoisie due to inflation.

Wages or salaries of working class and middle class employees have the tendency of becoming relatively stagnant. We all know that wages do not increase according to price increases. Real wages of worker and middle class employees decrease even though there is no decrease in the value of nominal wages.

Let us consider that the wages of a worker is Rs. 10 per day and 1 Kg. of grain is Rs. 5.

Then,

Nominal wages = 10 Rupees

Real wages = 2 Kgs. of grains.

Let us assume that the purchasing power of the rupee has decreased by 50% . Then

Nominal wages = 10 Rupees

Real wages = 1 Kg. of Grain

This means that inflation paves the way for a fall in real wages of the fixed income group such as the working and middle classes. Inflation is a weapon in the hands of the government to loot the purchasing power or the income of the people. In countries like India the price of agricultural products is prevented from rising in accordance with inflation and market conditions. As a result of this the peasants are forced to sell their products at a price lesser than their value.

The standard of living has declined due to inflation. Therefore a section of the working class like in government enterprises fought against this and won DA. But the ruling classes will not leave it at that. Therefore they resort to jugglery in fixing the CPI of consumer goods thereby reducing the benefits of DA. Thus the living standards of workers and government employees also degenerate due to inflation.

Appendix III

Speculation and Share Market

Speculation

Trade based on the assessment of a rise or fall of price of a particular commodity is called speculation. We are seeing everyday that merchants purchase agricultural products from peasants at lower rates and sell them at a higher rate. This is also a kind of speculation. Speculation works on the assessment of prices of a commodity in future. Therefore, speculation in all fields make all efforts to see that their assessment comes true. We see everyday that big merchants and commission agents jointly decrease the prices of agricultural products during the selling season. Similarly we also see that the big black marketers create an artificial scarcity for essential commodities and thus increase prices exorbitantly. Thus speculation is not merely a trade based on assessment. It must be understood that speculation also means that the big speculators increase or decrease prices according to their assessments. Merchants engaged in speculative operations for long periods. But speculative operations have increased gigantically under capitalism and particularly under imperialism. Today when imperialism is facing a severe crisis when there is a shortage of spheres for profitable investment. As a result of this they take the trouble to engage their capital in speculative operations to gain profit. As a result of this speculation has spread out widely to cover essential commodities, agricultural products, shares, government securities, real estate, foreign exchange, etc. Speculation has become one of the main spheres of operation of monopoly capital.

Share Market - Speculation

Today stock exchange or share market transactions play a significant role due to the organisation of monopoly corporations into joint stock companies. Speculation has become a means for monopoly capital to obtain profit after separating administration of enterprises by the owners of the joint stock companies. On the whole it pushed the bourgeois economic situation to a situation of instability based on speculative operations. The public can buy shares released by promoters of joint stock companies. All share holders become part of such enter-

prises, i.e., all share holders are token owners. Thus it is described as “people’s capitalism”. But the promoters who founded the enterprises own large amount of shares. Their share of capital will be small when compared to the total capital of the enterprises. The administration of the corporation will be in the hands of the board of directors elected by share holders.

The promoters retain their ownership of the corporation by getting elected as the board of directors. All major decisions regarding the corporation are made by the business executives and the administration of the corporate enterprises are in the hands of these executives. Day to day operations are conducted in their absence, i.e., the capital or ownership of the corporation belongs to all the share holders while the administration is controlled by the executives. A capitalist or a group of capitalists who hold more shares become the owners of the corporation on behalf of all the share holders. We must understand that a large number small share holders who constitute the majority of the total capital are only nominal owners. They do not have any role in decision making. Even the profit gained by the corporation will not be distributed among all the share holders. Normally 50% of profit or less than that is paid as dividend to the share holders. Normally, the percentage of profit distributed will decrease with the increase in rate of profit. Because the interests of the monopoly capitalists are different from the interests of the common share holders the undistributed profit is useful to the monopoly capitalist in many ways :

1. To reduce the tax on corporate profits.
2. It can be used for accumulation, thereby bring more capital under his control
3. It can be used as a reserve fund for starting another enterprise or can be used for the take-over or acquisition of other enterprises.
4. As board of directors and high level executives they can lead a luxurious life. They can draw high salaries.
5. Can utilise this fund to enhance political and social relations.

Joint stock companies are a suitable form to exercise control over

large amounts of capital with less amounts of capital. In his time Lenin said that it was sufficient to have control over a corporation with 25% of one's own capital. Today in our country big corporations is in the hands of capitalists who own 5% to 15% of who deposit their small savings merge their future with these corporations. Joint stock companies not only provide control over large amount of capital by monopoly capital, it also provides control over lakhs of share holders for the benefit of monopoly capital. It is estimated that there are 4 crore share holders in our country. It is not surprising that these small share holders who deposit their small savings merge their future with these corporations. They become the social prop of monopoly capital. Ownership over the corporation is achieved by first investing capital. (By buying shares). Buying and selling of shares has become the main activity of finance capitalists. The stock exchange has become the main sphere of activity for the finance capitalists. (Stock : shares, debenture, securities or bonds are all together called as stocks)

Primary Market: The selling and buying of shares, debentures, government securities or bonds released for the first time is called primary market. The public can buy directly either through scheduled banks or through agents. There are different types of shares. A minimum profit determined beforehand is to be paid on preference shares. Only after paying this the other share of profit is paid. Voting right is there for all share holders. Loan

papers released by corporate institutions are called debentures. Interest is paid according to its fixed rate. The principal is paid after the redemption period. Convertible debentures have an opportunity to convert the debentures into shares after the redemption period. Bonds or securities released by the government are also loan papers. The principal is paid after the redemption period.

Stock Exchange (Secondary Market): Buying and selling of shares, debentures and bonds can be carried on at any time. Such transactions are called as secondary market. Transactions conducted in the secondary market is called as the stock exchange. All transactions in the stock exchange must be carried out through stock brokers only. Hence stock brokers play a pivotal role in the operations of the stock exchange. Shares can be bought by anyone, whether landlord or banker

or middle class employee. It means the exploitation of surplus value. The purchase of shares means that capital is mobilised to exploit surplus value and profit is received through the exploitation of that surplus value.

The corporations which receive more profit get more dividend on their shares. Therefore the price of the shares of these enterprises increase above its past value. That is, if the price of a share is Rs. 100 when it was released, its price in the secondary market will be Rs. 150 or 200.

How is the price of a share determined in the secondary market? Its price is approximately equivalent to the capital that is necessary to receive bank interest equivalent to the dividend paid by the corporation. That is, the increase or decrease in price of shares does not depend upon the performance of that enterprise. The conditions of appropriation and exploitation of surplus value determines the price of shares. These conditions are called in stock market terms as fundamentals share prices rise of those corporations with strong fundamentals. Those corporation with weak fundamentals witness a decrease in share prices. In short, the share price of the corporation is dependent on the fundamentals of that corporations.

But the stock exchange is similar to a gambling den. The increasing or decreasing trend of share prices do not depend on any economic principles. Fixing of share prices based on fundamentals are practically only an illusion.

We must remember that before the exposure of the 1992 securities scam they had undergone unprecedented expansion throughout the country. The tentacles of the stock market spread out to small towns and even villages. Share prices were unprecedented raised. But in the same year when share prices increased and the share market was spreading the industrial growth rate was negative. A stagnant situation prevailed in the industrial sector that year.

In terms of stock market terminology, the fundamentals were weak and therefore the share prices must have dropped. A gloomy situation must have prevailed in the share market. But the situation was quite the opposite. Why? The conditions in the productive sector do not deter-

mine the share market rates, but it is controlled by the speculators.

The owners, the corporate magnates, share brokers, financial institutions unitedly control the operations of the share market. These big speculators transform their assessment into a reality. They increase or decrease share prices according to their wishes and not on the fundamentals of the share market.