A Conspectus of Marx's Theories of Value and Capitalist Crisis

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Capitalism and the Law of Labour-Value

Let's begin by defining what capitalism is *not.* Capitalism is not an ideology – it is not a set of beliefs or ideas about how to best organize social and economic life. *Believing* that capitalism is the best possible economic system *doesn't* make one a "capitalist." Rather, capitalism is a *socio-economic reality*, albeit one that is *supported* by specific ideologies (such as possessive individualism, classical liberalism, social liberalism, neoliberalism, and neo-conservatism).

For Marx, capitalism must be understood in the first place as *a class-antagonistic mode of production* – as a definite set of arrangements for satisfying human needs in a social context where these needs are understood in very different ways by the two fundamental social classes constituting what he calls "bourgeois society": the capitalist class and the working class. In a capitalist society, the (wage-earning) working class needs higher wages, better benefits, secure employment and improved working conditions (together with various protections and services provided by government). At the same time, the capitalist class needs higher profits, lower labour costs and better productivity from their workers (as well as government policies conducive to these goals). These two sets of needs *conflict* with one another; indeed, they are *counterposed* and ultimately *irreconcilable*. For this reason, the capitalist mode of production is properly understood as *class-antagonistic*, for its operations provoke the working class into struggling for an amelioration of its condition and (eventually) for a new, socialist/ communist mode of production and a classless society.

Like every other mode of production, capitalism possesses characteristics that are *historically specific* to it. Grasping the *specific features* of the capitalist mode of production allows us to analyze its unique **laws of motion**: the laws governing its emergence, its structural dynamics, and its eventual historical decline. These laws reflect the encounter between certain "natural" imperatives, constraints or laws (that are common to all human societies) and the particularities of capitalist social relations (which are at once exploitative, competitive, and formally egalitarian). These relations impart a specific and unique *form* to the "natural content" of capitalism – to the human imperative to develop a division of labour, to devise and employ tools to improve the productive powers of human labour and subdue nature, and so on.

Capitalism is not *simply* a system of "private ownership" of the means of production; nor is it *simply* a market-driven economy in which everyone seeks to maximize his or her "utilities" or "profits." For Marx, capitalism is a mode of production in which ***labour-power*** (the capacity to perform physical or mental labour, or some combination of the two) has become a ***commodity*** -- something bought and sold in a market which possesses both a use-value and an exchange-value. Labour-power in pre-capitalist societies is not *typically* a commodity, because the direct producers in such societies possess or have immediate access to means of production (although they are often still subject to exploitation). Capitalism, however, emerges historically through **the separation of the direct producers from their means of production**, and through the "monopolization" of the means of production in the hands of a smaller and smaller segment of society: the capitalist class (or bourgeoisie). As the direct producers are no longer able to secure a livelihood except through the sale of their labour-power for a wage or salary, they are transformed into the modern "working class" (or "proletariat"). In this way, the system of commodity production becomes *generalized*.

The ***law of value*** is the specifically *capitalist form* of the human imperative to distribute the aggregate labour of society in definite proportions to a multitude of different economic tasks. It operates fully only in societies where capitalist social institutions and social production relations predominate. More precisely, the law of labour-value "regulates" the distribution of social labour in accordance with the specifically capitalist imperatives to measure "wealth" in terms of labour performed in the production of marketed goods, to articulate a division of labour through the interplay of market forces, and to subordinate social production to the drive for private profit.

The **primitive accumulation of capital**, which was the historic precondition for this generalization of commodity production, required the widespread application of **force**: the coercive commodification of labour-power, the plunder of colonial possessions, and the super-exploitation of slave labour that financed the "industrial revolution" in Europe and America. “Primitive accumulation” is as an *on-going* process, with new economic sectors and territories becoming subject to capitalist exploitation as time goes by.

Capitalist commodity production must be distinguished from the "simple" or "independent" commodity production that existed within pre-capitalist social formations (medieval feudalism, the ancient world, etc.) for thousands of years. Marx describes the "economic circuit" of **simple (independent) commodity production** as follows:

C -- M -- C.

Here a commodity (C) is produced by an independent commodity producer, largely through the application of her own labour, and is sold in the market for money (M), which is then used to purchase a different kind of commodity. This economic circuit doesn’t allow the producer to realize “profits,” as it’s based on the principle of exchanging “equivalent for equivalent.” No exploitation of other people’s labour is involved. The money received by the independent commodity producer may increase or decrease in accordance with how vigorously and efficiently she works; but so long as she performs most of the work herself, she is unlikely to accumulate much wealth. At best, only a very gradual accumulation of wealth is possible; at worst, the producer loses ground and is forced to find a new livelihood.

In **capitalist commodity production**, by contrast, we find what Marx calls the **circuit of capital**:

M -- C -- M'.

Here the economic process begins with an investment of **value** (the money capital, M), which is then used to purchase specific commodities (C) that allow for the realization of an *enlarged* magnitude of money value (M'). The difference between M' and M is what Marx calls **surplus value** -- an accretion of *new* value – and this surplus value is precisely the "social substance" of profit of enterprise (as well as ground rent and interest). Marx insists that it originates in the **exploitation** of living labour by capital.

The circuit M -- C -- M' *appears* to violate the principle of the "exchange of equivalents" which is the normative imperative governing exchange in a free market; but this is not really the case. Certainly, it's possible for some economic agents to realize a profit by "buying cheap and selling dear." But such profits result from equivalent losses elsewhere in the market; so the profits and losses tend to cancel each other out. The question is thus posed: how are profits generated on an *economy-wide* basis under conditions where total value and total prices are ultimately equalized? Marx says that this question cannot be answered so long as we focus only on the "sphere of exchange" -- the "marketplace" of bourgeois economics. To answer it we must look at what occurs in the sphere of *production.* Accordingly, he reformulates the circuit of capital as follows:

M -- C (MP & LP) ... P ... C' -- M'.

In this "expanded formula" for the circuit of capital, a capitalist invests a definite amount of money capital (M) in two distinct *kinds* of commodities, each of which constitutes an *input* to a capitalist *production* process (P). The first *kind* of commodity is "means of production" (MP), consisting of tools, physical plant, machinery, raw materials and so forth; these constitute the *objective* elements of the production process. The second *kind* of commodity is "labour-power" (LP), the *capacity* for labour (mental and manual), which is always embodied in *living workers*. When means of production and living labour-power are brought together in production, the result is an *output* commodity (C') that represents a greater amount of *value* than the original input commodities. When this output commodity is sold at its value, a magnitude of value (M') is *realized in money form* that is greater than the original money capital investment. Surplus value is thus the result of the exploitation of labour within *capitalist production*.

Surplus value is created solely by that "unique" commodity known as labour-power. Means of production cannot create "new value"; they can only pass on to the new commodity product "previously existing values" as these are consumed in production. Labour-power, however, *can* produce more value than it "represents." The value of labour-power is determined by its cost of reproduction (simply put, the wage); but the physical activity of labouring is variable (or elastic) in its contribution to the creation of new value. The difference between what living labour *creates* in the way of new value and the wage-bill of productive workers is surplus-value. In other words, surplus value results from the appropriation of surplus (effectively *unpaid*) labour in production, which is made possible by the capitalist monopoly of ownership of the means of production and capital's control over the labour process. Capitalist exploitation doesn't depend on "unequal exchange" in the market, but on the **subordination of labour to capital** within the sphere of production.

What exactly does Marx mean by **value**? A commodity is a *product of labour* that is produced with a view to its *sale* in a market. Every commodity has a utility (or "use-value") as well as an exchange-value (the power to command some sort of remuneration in exchange; when expressed in money, a price). Marx asserts that a commodity's exchange-value is a "form of appearance" of its *value.* The **value** of a commodity is an expression of its relationship to all other commodities as a product of the social division of labour existing between producers (i.e. living labourers). Accordingly, the substance of value is ***abstract social labour***, the magnitude of value is ***socially necessary labour time***, and the form of value is ***money*** (which "measures" and constitutes the necessary form of appearance of abstract labour).

The fundamental purpose of Marx's theory of value is *not* to explain *individual price formation* (as the marginal utility theory of "value" seeks to do in bourgeois economics). Rather its purpose is to disclose the "laws of motion" of the capitalist economy as a whole.

Operationally, Marx's **law of labour-value** involves **two fundamental postulates**:

1) **living labour is the sole source of all new value**, including the surplus-value represented by profit of enterprise and interest; and

2) **value exists as a definite quantitative magnitude** at the level of the capitalist economy as a whole, a magnitude that "limits" profits, wages and prices.

Overproduction as the Form of Capitalist Crisis

This theory of labour-value is the basis upon which Marx constructs his theory of **capitalist crisis**. The law of labour-value explains a peculiar characteristic of capitalism: the fact that it is the only mode of production in human history to generate **crises of overproduction**. In pre-capitalist societies, economic crisis is associated with *underproduction*. But underproduction of use-values is rarely a problem in capitalist societies. Periodically, however, ***too many commodities are produced*** in relation to the **effective demand** that exists for them. Effective demand is demand backed by *purchasing power* – that is, by *money* in the hands of the would-be purchaser. The characteristic *form* of capitalist economic crisis, namely overproduction, is therefore a result of insufficient demand (backed by money, the expression of *abstract social labour)* for commodities representing a definite amount of value (abstract socially necessary labour time). Commodities cannot be sold (or markets "cleared") at prices which permit an adequate profit margin; and since profit drives capitalist production, the economy slows down and may even shrink in size, throwing large numbers out of work, bankrupting many firms and rendering much productive plant idle.

Commodity Value and Its Constituents

The value of a commodity is determined by the amount of *socially necessary labour time* required for its production; but its *exchange-value* will usually deviate from this value as a result of other factors bearing upon price formation (most importantly, the tendency for the rate of profit to equalize, but also certain “subjective” factors affecting demand). For Marx, however, the main purpose of a value theory should not be the explanation of price ratios but rather the illumination of the capitalist economy's macroeconomic laws of motion. Regardless of the degree to which individual prices and values diverge (owing to "transfers" and "redistributions" of value effected through market processes), *total prices* must equal *total values* -- for without the social relations of capitalist production expressed by "value" (whose substance is social *abstract labour)*, the economic category of money price could have neither theoretical importance nor concrete existence.

Marx maintains that if value is the social substance of price, the social substance of profit is *surplus-value*: the increment of value created by living labour beyond the value embodied in the wages of productive workers. Further, total profits will equal total surplus-value. The key point to understand, however, is that the sole source of value and surplus-value is living labour that is subject to class exploitation.

At the level of the individual commodity as well as at the level of the gross product, value is allocated in the following way: **constant capital** (which represents the value of means of production and other costs of capitalist production/ reproduction) + **variable capital** (the value represented by the wages of those workers directly involved in the product's production) + **surplus value** (the value created by the unpaid "surplus labour" of those productive workers) = P (the total value of the commodity product or Gross Product).

Marx's “Falling Rate of Profit” Theory of Capitalist Crisis

Marx’s theory of labour-value has profound implications for a scientific assessment of the stability and rationality of the capitalist economy, for it leads to the conclusion that capitalism is not only beset by “contradictions” but that its "laws of motion" render it prone to severe **crisis**. Since the principal goal of capitalist production is the private appropriation of profit, the rate of return on invested capital (also known as the average rate of profit) is the key regulator of capitalist accumulation and economic growth. When the average rate of profit falls, investment will tend to decline and credit will be adversely affected. A crisis ensues, and the economy may contract, resulting in a recession or depression. Marx asserted that there is **a long-term tendency for the rate of profit to fall under capitalism** -- a tendency rooted in the competitive and class-antagonistic social relations of capitalist economy. The competitive interaction of individual capitals forces each capitalist firm to reduce its costs of production per unit of output (in order to preserve or enlarge market share). Given the antagonistic relations between capital and labour, the favoured strategy for reducing costs is to increase the productivity of labour by displacing living labour from production through the introduction of labour-saving technologies. This is a rational strategy from the point of view of the individual capitalist firm seeking to meet the challenges of competition. But the unintended consequence of this strategy -- when it is pursued by *all* the competing capitals -- is to reduce the *total* "social surplus-value" produced in relation to the *total* capital investment. Recall the fact that, for Marx, only living labour can produce surplus-value. As the ratio of "dead" to living labour in production rises (expressed in the ratio c/s+v -- the "organic composition of capital"), the rate of profit s/c+v, is depressed, and this, other things being equal, will tend to slow the rate of capital accumulation and economic growth. In this way, "the barrier to capitalist production" reveals itself to be "capital itself" (Marx). The system "shoots itself in the foot," a crisis ensues, and the crisis creates conditions (through the "slaughtering of the values of capitals") for at least a partial recovery in the rate of profit and renewed accumulation and growth.

In the long-term, however, such crises tend to become more acute, more protracted, and eventually require more far-reaching "solutions." Such solutions may include aggressive attempts to raise the rate of exploitation of living labour by driving down working-class living standards; trade wars or colonial adventures permitting a displacement of the "internal contradiction" to the "external field" of production and exchange; fascism, involving the complete destruction of the organized labour movement and the mobilization of "the nation" to solve its problems at the expense of other nation-states; and full-scale war between nations leading to the *physical destruction* of capital, permitting a "new start" -- a new material and social basis for capital accumulation, such as that which emerged after World War II. For Marxists, such extreme manifestations of capitalist crisis are sufficient to indicate that the capitalist system has ceased to play a progressive role, that its irrational aspects have eclipsed its rational ones, and that it must give way to a higher, more rational and more "just" form of social production: socialism.

The Empirical Actuality of the Falling Rate of Profit

Marx's expectations regarding the long-term dynamics of capital accumulation and their effects on the average rate of profit have been shown to be consistent with the actual performance of a number of advanced capitalist economies since the end of the Second World War. My own study of empirical trends for the rate of profit, the rate of surplus value and the organic composition of capital in the Canadian economy provides particularly striking confirmation of the relevance of Marx's law of the falling tendency of the rate of profit (see Murray Smith and K. W. Taylor, "Profitability Crisis and the Erosion of Popular Prosperity: The Canadian Economy, 1947-1991" in *Studies in Political Economy*, Spring 1996, Number 49). This study, which established trend lines for the three key quantitative ratios of Marx's system, showed that between 1947 and the mid-1970s, the average rate of profit evinced a secular downward trend accompanied by a rising rate of surplus value and an impetuously ascendant organic composition of capital. (These empirical results were predicated in good part on what remains a controversial allocation of "socially necessary unproductive labour" costs to the constant capital component of the gross product rather than to either its surplus-value or variable-capital components.)

From the mid-1970s until (at least) the early 1990s, the secular fall in the rate of profit was arrested, and this was associated with a sharp increase in the rate of surplus value and a levelling off of the organic composition of capital. It was during this latter period that capital and the state began to play "hardball" with labour, in Canada as elsewhere. Union busting, restructuring, increased international capital mobility and neoliberal economic policies became the order of the day. The profitability crisis of the earlier period was ameliorated, if not completely overcome, by a successful effort to force labour to pay the medical bills of an ailing capitalist economy -- spelling the end of the so-called "capital-labour accord" that emerged after World War II in much of the advanced capitalist world.